



BLACKFINCH
INVESTMENTS

Consumer Duty

Blackfinch Asset Focused EIS Portfolios *Closed Product Review*

Product Service Overview

Product / service key features

Blackfinch Asset Focused EIS Portfolios is a discretionary portfolio management service that aims to provide long-term returns from investments held in asset-backed trading activities, that provide a degree of capital preservation and risk mitigation, whilst enabling investors to benefit from available EIS tax reliefs.

- SW Construction (Residential) is a construction company focused on residential property developments.
- SW Construction (No.2) is a construction company focused on residential and commercial property.
- StorMe London Ltd.'s (StorMe) value proposal is built around managed storage services. Its new dedicated storage site, located in Redditch in the West Midlands, partially opened in early 2021.
- Hearth Hospitality Ltd. (Hearth) is a gastropub-operating company. Its strategy is to tap into the market for upscale pub restaurants. Its offering includes a rich variety of guest ales and lagers, as well as wine and spirits. These are coupled with a high- quality, but reasonably priced restaurant.
- Agility Shipping International Ltd. (Agility) operates in the global support vessels industry. It aims to exploit the demand for services to international sea-based projects.

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.

Product / service key benefits

30% Upfront Income Tax relief

Available up to a maximum investment of £1 million for the current tax year. This is also available for an investment of up to £1 million backdated to the previous tax year.

Capital Gains Tax (CGT) deferral relief

For gains realised within 3 years before investing or 1 year after investing. The CGT is deferred during the life of the investment and eliminated completely if held at death. Unlike Income Tax, there is no limit on the level of CGT which can be deferred.

Offset capital losses

Ability to claim up to 45% relief on any investments that are realised at a loss (net of any Income Tax relief on that investment).

Tax free growth

No CGT is payable on disposal of the shares after 3 years provided the Income Tax relief has been given and not withdrawn.

100% Inheritance Tax relief

Available after 2 years (provided the investments are held at the time of death) or sooner if the EIS investment replaces an investment which already qualifies for IHT through Business Relief (BR).

Attractive investment opportunity

The Asset Focused EIS portfolios allow you to access trading activities that provide a degree of capital preservation and risk mitigation.

Limitations of the product

- Investors are unable to control when they will receive returns from the product.
- 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.
- 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.

Risks associated with the product / service**Capital is at risk**

The capital invested in the Blackfinch Asset Focused EIS Portfolios is at risk. The value of the investment may go down as well as up and the investor may not get back the full amount invested. There is no guarantee that the targeted return per annum will be achieved.

Taxation rules may change

Any changes to the taxation environment or HMRC practice may affect investment returns. Rates of tax, tax benefits and allowances that could be available as a benefit for this product are based on current legislation as well as HMRC practice and depend on personal circumstances. The investor may be liable to make tax payments on any amounts they withdraw from the investment.

Qualifying investments may change

We will invest in an investee company which we reasonably believe to be EIS qualifying at the time of investment. Please note there is no guarantee that the investee company will remain EIS qualifying at all times thereafter, or that EIS tax reliefs will be available to investors. There is no guarantee as to the timing of the availability of the EIS3 Certificates that are needed to claim EIS tax benefits.

Business relief status may change

The nature of the activities undertaken by the investee company we invest in, is such that the company will also qualify for BR. Unlike the EIS tax benefits, it is not possible to obtain any assurance from HMRC that the investee company will qualify for this relief; it is assessed by HMRC on a case by case basis at the time of death of the investor as part of the probate process. The proportion of the investment that is deemed to qualify at that time, assuming it has been held for at least 2 years and is still held at the time of death, can be passed to the beneficiaries free of IHT. The 2-year time frame commences when HMRC deem the investment has become BR qualifying, which may be later than the investment date.

The assets may be hard to sell

To qualify for tax relief investments made by the Blackfinch Asset Focused EIS Portfolios must be in unquoted companies. These investments are not readily realisable, unlike companies listed on the London Stock Exchange. The minimum holding period for an EIS investment is 3 years which runs from the latter of the date of investment into each EIS company and the commencement of the company trading. Investors should be prepared to leave their money invested for at least 3 years as it is unlikely that we will be able to arrange liquidity during the 3-year period.

Other legal or regulatory obligations

N/A

Impact on customer groups

Customer groups / segments summary

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.

Useage and impact assessment

- Most customers have been able to access the benefits of the product, this can be evidenced by them being able to obtain EIS3 Certificates.
- Customers who invested in Agility Shipping were not able to obtain EIS3 Certificates.

Risks to different customer groups

Risk to the target market.

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 2 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.

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 difficult (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.

Non-compliance review

Cross-cutting obligations review

Act in good faith

Customers needs have been understood and met, there has been no undue friction, manipulation or exploitation of any customers. All customers have had access to the same level of service, information and care.

Blackfinch have removed the Annual Management Charge (AMC) from these products to ensure that they provide fair value.

Cross-cutting obligations review

*Act in good faith
(Vulnerable customers)*

The needs of vulnerable customers have been understood and met, there has been no undue friction, manipulation or exploitation of any vulnerable customers. All vulnerable customers have had access to the same level of service, information and care.

Blackfinch have removed the Annual Management Charge (AMC) from these products to ensure that they provide fair value.

Blackfinch will work with individuals to understand their needs, for example documentation can be provided in other formats, such as large font, if required.

Cross-cutting obligations review

Avoid causing foreseeable harm

The risks of the product have been clearly identified and relayed to customers through the product literature. The term of the product has been confirmed and the high-risk nature of the product is within the documentation. These products were mainly distributed through financial advisers who assessed the investor to ensure this product was suitable.

Blackfinch reviewed the costs for this product and found that these may not provide a fair value due to the potential returns of the product and therefore Blackfinch removed the AMC. This removal of charges was to limit the financial impact on the investor and stop the additional financial harm.

Cross-cutting obligations review

Avoid causing foreseeable harm (inherent risks)

The risks of the product have been clearly identified and relayed to customers through the product literature. These products were mainly distributed through financial advisers who will also assess the investor to ensure this product is suitable.

Cross-cutting obligations review

Enable and support retail customers

The product benefits support retail customers, these products provide EIS tax benefits (as stated in the Product/Service Key benefits section), where the EIS tax status is granted, which can support the retail customers with their financial position.

Communications are provided to investors on a regular basis to show the progress with these investments and the next steps that are being taken.

Blackfinch reviewed the costs for this product and found that these may not provide a fair value due to the potential returns of the product and therefore Blackfinch removed the AMC.

Cross-cutting obligations review

Enable and support retail customers (communication and information provision)

Information is provided on a regular basis and ad hoc when appropriate and with responsive customer support for direct clients and advisers who route queries from clients. Blackfinch have received feedback from investors that the communications received are often a few months old (not as up to date as they would expect) and the information received is not always believed to be sufficient to keep the investors up to date.

Outcomes

Fair value

The product provides fair value compared to the value provided (noting the high risks that may result in a poor return). Blackfinch reviewed the costs for this product and found that these may not be showing a fair value due to the potential returns of the product and therefore Blackfinch removed the AMC.

Outcomes

Consumer understanding

We provide clear information and regular updates. However, Blackfinch understand that clear documentation will not assist all customers and we have an enquiries email, we accept letters and we have a telephone line to assist with any queries on our products and services.

We understand that this may not suit all customers, especially vulnerable customers, and therefore we will work with our individual customers to offer support and assistance, in a way that is suitable to them, to increase their understanding of our products and services.

Our distribution channel can also assist with consumer understanding as our distributors are typically Independent Financial Advisers (IFAs). Blackfinch will work with individuals to understand their needs, including for any vulnerabilities, for example documentation can be provided in other formats, such as large font, if required.

Outcomes

Consumer Support

We have an enquiries email, accept letters and we have a telephone line to assist with any queries on our products and services and to support our customers. We understand that this may not suit all customers, especially vulnerable customers, and therefore we will work with our individual customers in a way that is suitable to them, to offer support and assistance.

Blackfinch also ensure that staff are trained to provide support. We are not able to provide advice for the products or service but can provide support with any queries. Support that requires advice will be directed towards the distribution channels used, if still with these advisers, or to obtain this from another financial adviser.

Harm Identified

Has non-compliance review identified harm to customers within the target market including vulnerable customers

Yes, there have been a few occasions where investors have informed us that they are not happy with the level of communication received on these investments. Blackfinch have received feedback from investors that the communications received are often a few months old (not as up to date as they would expect) and the information received is not always believed to be sufficient to keep the investors up to date on the progress with their investment.

Have any events caused harm to customers

Agility Shipping – Customers who invested in this company were unable to obtain EIS3 certificates and therefore not access the tax benefits. There was a claim lodged against the tax adviser and this has now been settled.

*Could any future events
cause harm to customers*

- Hearth Hospitality Ltd - We have had no interest from buyers over the past year, so we have taken the pub off the market and will look at how we can improve value so that it can be sold in the future.
- StorMe Ltd – We are looking to increase occupancy within the Self-Storage unit in order to make the asset more marketable. We will then look to selling the asset in the future.
- SW Construction (Residential) & SW Construction (No.2) – We are still working hard to provide an exit for our investors.

*Action taken to prevent
foreseeable harm*

Blackfinch are working on their communications to ensure that these are more frequent and provide clarity on the position of the investments.

Investors will be directed to obtain financial advice for their personal situation to determine what is best for their situation to prevent future event harm.

IMPORTANT INFORMATION

Blackfinch Investments Limited (Blackfinch) is authorised and regulated by the Financial Conduct Authority. Registered address: 1350-1360 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH. Registered in England and Wales company number 02705948. All information correct at June 2024.