Consumer Duty

New Product Review

Blackfinch Energy Transition EIS Portfolios

Product Details and Benefits

Description of the product

Blackfinch Energy Transition 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 Enterprise Investment scheme (EIS) tax reliefs.

The 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 Energy Transition 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 (subject to Income Tax relief being claimed for the initial subscription).

The features of the product:

- Investment into high-growth technology businesses, each with a strong founding team, good long term future growth prospects, 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.
- Potential for high returns (along with high risk) with a targeted return of 3x over 4-7 years.

Describe the customer type the product is designed to benefit

Adviser firms advising clients with the following attributes:

- Wishing to target returns alongside tax mitigation.
- Interested in significant return potential from start-ups capable of substantial growth.
- Aiming for exposure to early-stage firms as part of a diversified portfolio.
- Client seeking to defer a CGT liability.
- Clients whose main income is from rental properties.

Target Market

State the target market for the product

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, the investments are high risk and that certain criteria need to be met to meet the tax benefit criteria, specifically the investment needs 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.

Client 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 at least 4-7 years and should be comfortable with the fact that the investment term is completely outside of their control.

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

Willingness to invest their capital for a minimum of 4 years but aware that it could be 7 years or longer and also understanding the risks involved and that they may not receive back their original investment.

Clients' objectives and needs

- Those who are looking to reduce their tax burden within long term schemes (up to 7 years or more). The Blackfinch Energy Transition EIS Portfolios has a range of attractive benefits including reductions in income tax, inheritance tax and capital gains tax (CGT).
- Investors who are happy to invest in small unquoted businesses which involve a higher degree of risk.
- Investors who have already accumulated a large element of savings.
- The typical investor will be of either gender and aged between 50 and 65.
- Investors will typically have had advice or are sophisticated investors.

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

- Those who may want to access capital in the short term.
- Those who wish to have a low level of risk.
- Inexperienced investors.
- Those with insufficient income to fully benefit from the tax relief offered by an EIS.
- Those who have not already made use of more mainstream tax-efficient investment opportunities (e.g. ISAs and pensions).

Detail the risk profile inherent in the target market

The target market will have a risk tolerance and compatibility of the risk/reward profile as per the above. This will include them being aware and comfortable with the potential risks of this product including the capital invested being at risk and that investors may not get back the full amount invested.

The target market will be aware that there is no guarantee that the targeted return will be achieved and that Blackfinch are unable to guarantee that investors will be able to dispose of their shares before and after the minimum three-year holding period.

The target market will also be aware of the potential changes that could be made to the taxation environment or HMRC practice which may affect investment returns and that the companies invested within may alter and so no longer qualify for EIS legislations, this could result in the repayment of any tax rebate.

The target market will also need to be aware of the concentration risk. The investment will be spread over at least 10 companies. However, the failure of any individual company will have a significant impact on the overall value of the portfolio, and therefore investors should be aware of the concentrated nature of the portfolio.

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 liquidity 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

There is clear benefit for the target market, which may well include vulnerable customers. 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.

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.

Identify the drivers of vulnerability in the target market

Drivers of vulnerability in the target market include:

1. Lack of understanding of the product, whether arising from a long-term condition, low capability, or short-term stress. The risks (stated within the Product risk section) 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 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 the additional needs of the vulnerable customers identified

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 can 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.

Is there a defined benefit the product brings to the target market where identified risks can be managed?

Yes.

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 good long-term future growth prospects.

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 helps 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').
2. Stated and illustrated explicitly in the brochure – whilst stating the target return as X3, page 15 of the brochure clearly highlights a variety of successes and failures.
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.
4. Is covered explicitly in the TMA for advisers and 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 multiple companies (normally at least 10 unless the client has waived diversification to achieve deployment by a given date) as described in Risk 5. It maximizes 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 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 professional indemnity (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 founders 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 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 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 by independent advice from qualified financial advisers who assess the individual client's needs, objectives 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.

Does the benefits of the product outweigh the residual risks identified?

Yes.

Product Design

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 of the product prevent the average target customer from fully enjoying the product?	No. Understanding the limitations is an important element of the target market.
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 a sale or an initial public offering (IPO). This is a necessary characteristic of the product in order to secure the EIS tax reliefs.
Explain how the design of the product meet the needs of the target market and reduces identified risks?	The associated tax reliefs with EIS mitigate the impact from potential company failures.
Has a value assessment been undertaken?	Yes.

Does the value assessment demonstrate there is appropriate value in the product to the target market?	Yes.
Has the value assessment been used when selecting distributors?	Yes, with the bulk of investments made on the recommendation of financial advisers.
Will the value assessment be made available to the distributor?	Yes, the details of the value assessment are in the price and value assessment section below.
Explain how it will be ensured distributors adhere to the findings of the value assessment when setting their distribution strategy.	The majority of investments are via regulated financial advisers with limited contact with end investors. Advisers are supported via Blackfinch Business Development Mangers (BDMs) (with additional support from the Ventures Team) ensuring they have correct information to provide to their clients.
Taking all of the above into account, explain why the product is suitable for the target market avoiding adverse effects and foreseeable harm.	The overall benefits to the target market outweigh the adverse effects.

Legal and Regulatory Obligations

Is the design of the product and service compliant with legal and regulatory obligations?

Yes, the product aligns to all current legal and regulatory obligations. Blackfinch will take into account any Sustainability Disclosure requirements (SDR) and regulations and anti-greenwashing regulations. Changing regulations are monitored on an ongoing basis at a company and product level.

Product Testing

Has the product been tested including scenario analysis which assesses whether the product meets the identified needs, characteristics and objectives of the target market, including identified needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability?

Since launch, we have seen increased demand for the Blackfinch Venture EIS Portfolios. In order to increase consumer choice, we have now opted to launch the Blackfinch Energy Transition EIS Portfolios.

Through market pulse research carried out with our existing advisers and investors our findings showed convincingly that our network told us the most popular and in-demand investment theme was the Energy Transition.

Over the course of 2024 we have analysed the market, spoken to advisers and taken valuable feedback directly from our investors. We wanted to establish an understanding of what our clients are looking to access in future Portfolios, which would also provide an additional choice within our innovative product range.

The political and economic tail winds which support this investment theme are strong and have gained further potential since the Labour government was recently installed.

The Blackfinch Ventures Team research that indicated that the Energy Transition EIS offers high growth opportunities which aligns with the EIS investment profile.

All of the above points highlight how this new product will allow the target market to progress towards meeting their objectives alongside providing an added benefit of increasing consumer choice.

In addition to thematic testing, initial feedback from client communications has been reviewed with advisers and clients to interpret their understanding of the relevant product material.

In addition, many elements of the product and its promotional material have been taken from the Blackfinch Ventures EIS Portfolios, which has been established since 2018 and has been subject to longer periods of testing, including under the Consumer Duty regime.

Does the Testing demonstrate the needs of the target market have been met?

If the testing demonstrates the needs of the target market have not been met has the:

- *Product approval process been paused, or*
- *In the case of a current product has marketing and distribution ceased, until remedial action to address identified issues has been taken*

Yes.

This has been ascertained from market research from the existing client base, advisers and relevant investment teams.

Whilst this is a new product to market with no established track record, it will echo the sentiment of the Blackfinch Ventures EIS Portfolios whilst increasing consumer choice. Clients will have the option of investing into either (or both) of the EIS products offered by Blackfinch.

Distribution Arrangements

Are arrangements in place to ensure those distributing the product have information to:

1. *understand the characteristics of the product.*
2. *understand the identified target market.*
3. *consider the needs, characteristics and objectives of any retail customers in the target market with characteristics of vulnerability.*
4. *identify the intended distribution strategy for the product; and*
5. *ensure the product will be distributed in accordance with the needs, characteristics and objectives of the target market.*

Yes.

There are existing relationships in place for the distribution of the established Blackfinch Venture EIS Portfolio. This will be echoed by the Blackfinch Energy Transition EIS Portfolios.

All parties distributing the product will be provided with the relevant product documentation. Most investments are facilitated via BDMs and regulated financial advisers who have a fiduciary duty to provide suitable products to their clients.

BF100 clients additionally get a paper and short presentation on each company in which they are able to invest.

Are distributors maintaining product distribution arrangements for each product it distributes that:

1. *avoid causing and, where that is not practical, mitigates foreseeable harm to retail customers.*
2. *support a proper management of conflicts of interest; and*
3. *ensure the needs, characteristics and objectives of the target market are duly taken into account.*

Yes.

These processes are in place for the already established Blackfinch Ventures EIS Portfolios and will be replicated for the Blackfinch Energy Transition EIS Portfolios.

As and when additional regulatory requirements are implemented pertaining to SDR, we will provide additional guidance to distributors to ensure they are aware of the increased requirements for the Blackfinch Energy Transition EIS Portfolios.

Communication and Support

Have the product support features been designed with the needs of the target market in mind [i.e., ability to switch / cancel easily]?

The product is designed to align with the target market.

Due to the tax benefits of the EIS, which is inherent to its design, the Portfolios are not readily realisable. The target market is made aware of this prior to investment. The distribution of the product to end investors are usually through regulated financial advisers which mitigates the risks of misunderstanding.

'Is the proposed communication clear, fair, not misleading and designed to be understood by the target market [including vulnerable customers]?

Yes.

Have product specific communications been tested to ensure they can be understood by the target market?

Yes, testing on the initial materials has been carried out to ensure these can be easily understood.

Is support easily accessible for the customer and of good quality [i.e., call centre support]?

Yes.

Support can be accessed on the website, via email, via post or direct call.

Findings

Does the proposed product have 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.
Are distribution arrangements adequate?	Yes.
Will the product allow identified groups of customers to pursue their financial objectives?	Yes.

Consumer Duty

Price & Value Assessment 2024

Blackfinch Energy Transition EIS Portfolios

Target Market

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 behavioural 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 the product 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. The existing ventures EIS portfolio can be used for a proxy in terms of investment process. There are published independent reviews available for this in the form of Micap, Churchill and Hardman.
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

Identify the market rate for the product

The Micap review indicates that the average initial fee out of 49 EIS products is 3.6%, while the average ongoing fee is 1.8%. Over 4 years, we are slightly cheaper (more significantly thereafter as we charge no AMC after 4 years).

The average performance fee is 21%, and fees are taken above an average hurdle of 113%.

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. 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 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 to cover all these points, including BF100 clients.

Are there any remuneration 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 0.58% initial and 0.19% ongoing – representing additional costs of just 1.34%. 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

IMPORTANT INFORMATION