

Consumer Duty

Product Services Review

***Blackfinch Asset Management
Managed Portfolio Service and Multi-Asset funds***

Product Details

Description of the product

The Blackfinch Asset Management investment solutions consist of a range of multi-asset investment options to cater for clients looking to grow the value of their capital over time or provide a specific level of income. A multi-asset investment fund structure is offered as well as a multi-asset investment option hosted via a variety of third-party investment platforms.

Describe the key features and benefits of the product

The investment portfolios will aim to achieve a return in excess of 1,2,3,4 or 5% above CPI, or a net income in excess of 3.5% per annum, over a rolling 5-year basis depending on the selected portfolio. Investors will typically achieve a return higher than that provided by bank deposits, whilst having risk exposure appropriately managed. Although designed to be held over the longer term, the liquidity of the portfolios allows investors to withdraw capital whenever required, without penalty.

Describe the limitations of the product

The product is not designed to generate investment returns that are significantly higher than the stated objectives. The product is marketed that it should be held for a 5 Year+ time frame although access to capital is never restricted for the investor considering the attractive liquidity profile of the product. Investors will need to be comfortable that the value of their investment will fluctuate over time and will at times, show capital losses.

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].

Investors who are seeking to grow the value of their investment over time and in particular, those looking to do so whilst maintaining the 'real' value of their capital over the longer term by outstripping the effects of inflation.

Those who are looking to invest in capital markets over the medium to long term (typically 5 years+) to achieve a total return in excess of the UK Consumer Price Index (CPI), over a rolling 5 year basis. Those looking to invest with a key focus on implementing Environmental, Social and Governance (ESG) factors into their investment portfolio via a positive screening approach. Investors who have access to liquid capital, outside of this investment, to cover any potential unforeseen emergencies. Investors looking to utilise a regular savings plan over the longer term. Investors who have a one-off lump sum to invest over the longer term. Investors who are comfortable with fluctuations in capital value inherent with stock market investing. Those seeking to invest in a multi-asset, globally diversified investment solution. Those who are looking to build up funds within tax efficient wrappers such as Pensions and ISAs. The portfolios are suitable for both inexperienced and sophisticated investors.

Product Risks

Identify the risks posed by the complexity or nature of the product

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. There is no guarantee that targeted returns will be achieved. The MPS provides investors with a range of risk rated portfolios depending on their attitude to risk which will have been assessed by a suitably qualified Financial Adviser. The product will not provide solutions for those looking for a high risk/ high return strategy or those seeking to invest in risk-free assets. The product is marketed to advised sales through our client base of professional advisers.

Explain how these risks are mitigated

The diversified nature of the investment product goes some way to address the risk of a permanent loss of capital. It also helps to address volatility risk to the invested capital as the multi-asset investments are expected to display different return profiles at different points in the investment cycle. Nevertheless, there remains a risk to the invested capital which is clearly stated on the marketing and communications documentation.

Identify the risks posed to the target market by the Product

As explained above.

Explain how these risks are mitigated

As explained above.

Identify the risks posed to vulnerable customers by the Product

The risks to vulnerable customers are the same to those that are not classified as vulnerable. Blackfinch recognise the need to potentially illustrate or explain these risks in a different way in the event a vulnerable customer is investing and will work with the distributor to do so where such cases are identified.

Explain how these risks are mitigated

As explained above.

Testing

Is the product meeting the needs and objectives of its target market and vulnerable customers?

Yes. Since inception the investment portfolios have displayed the characteristics that consumers have been led to expect both on the upside as well as the downside.

Has a value assessment been completed, and does it demonstrate good value? (separate review document)

Our multi-asset fund range has had an Assessment of Value carried out with no concerns identified. An AoV is being carried out for the MPS pending a suitable testing design signoff.

Has the product been distributed in accordance with the value assessment findings?

Where applicable to assess, yes. Distribution is largely controlled by the financial adviser in conjunction with their selected third party investment platform of choice. Whilst Blackfinch takes all reasonable steps to ensure the relevant information is provided in a timely manner, we cannot guarantee in all cases the product is distributed in accordance with the value assessment findings.

Are communications being used as detailed within the product approval?

Yes, although it should be noted there can be cases where the distributor may not use communications as detailed in the product approval, which is outside the control of Blackfinch.

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?

Yes.

Does testing demonstrate the communications are clear, fair and not misleading?

Yes.

Are customers adequately supported after the point of sale?

Yes. All investors receive monthly factsheets detailing investment performance as well as a list of underlying assets held and accompanying commentary that covers the macro events impacting markets and any investment activity within their portfolio. Furthermore, the investment platforms of choice will provide the customer with ongoing valuations and transaction statements with regard to their investment portfolio/s.

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, the product is specifically aimed at retail customers including those with characteristics of vulnerability.

Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?

The product has been running since July 2018 and since that date, Blackfinch have no reason to believe retail customers cannot use the product as reasonably expected. In certain cases, retail customers have written to express satisfaction over the service and support Blackfinch have provided with regard to the product.

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

Full risk disclosures are provided to the distributor at the start of the business relationship as well as on an ongoing basis. However, investing a client in to the product takes place between the distributor and the selected investment platform which is a process Blackfinch has no control over.

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*

Yes. The costs involved are clearly set out from the outset. Blackfinch applies no additional fees at any point of the investor's time with us. General enquiries or requests are not charged as an addition, no switching, amendment or transfer fees are levied by Blackfinch, however these may be levied by the chosen investment platform. There are no barriers to customers contacting Blackfinch directly, however we do urge the customer contacts their financial adviser in the first instance. We have an established complaints process designed to deal with customer complaints in a fair and timely manner.

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]

Yes. Since inception the product has performed as the customers have been led to expect once all applicable charges have been taken in to account. We are pleased to have received direct positive feedback from the target market as well as the distributors involved. Blackfinch are pleased to have met the stated SLAs in terms of investor reporting and communications aimed at supporting the investors on an ongoing basis.

Does the product provide fair value for the target market [including vulnerable customers]

Yes, the benefits set out against the charges and expectations highlight fair value

Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks?

Wherever possible, identified risks that can be mitigated have been so. The distribution strategy helps to mitigate risk given there is a third-party investment professional also included in the chain along with a regulated investment platform. At each stage of the distribution journey, these parties are provided with the relevant information in a timely manner enabling them to discuss the suitability and risks present to the investor.

Is the product allowing identified groups of customers to pursue their financial objectives?

Not specific groups as the product is suitable for a wide range of customer requirements, categorisations, experiences and objectives. These cannot be easily grouped and defined. However, at a broader level, the product is allowing investors who wish to invest and grow their capital over time whilst retaining liquidity the ability to pursue their objectives.

Have customers been able to use the full benefits of the product?

Yes, there have been no instances where customers have been unable to access or use the benefits of the product since its inception.

Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?

Yes.

Consumer Duty

Price & Value Assessment

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Target Market

Identify the target market

Retail and Professional clients.

Detail the characteristics of the target market

Those who are looking to invest in capital markets over the medium to long term (typically 5 years+) to achieve a total return in excess of the UK Consumer Price Index (CPI), over a rolling 5 year basis.

Those looking to invest with a key focus on implementing Environmental, Social and Governance (ESG) factors into their investment portfolio via a positive screening approach.

Investors who have access to liquid capital, outside of this investment, to cover any potential unforeseen emergencies.

Investors looking to utilise a regular savings plan over the longer term.

Investors who have a one-off lump sum to invest over the longer term.

Investors who are comfortable with fluctuations in capital value inherent with stock market investing.

Those seeking to invest in a multi-asset, globally diversified investment solution.

Those who are looking to build up funds within tax efficient wrappers such as Pensions and ISAs.

Explain why the target market has been selected

The characteristics of the investment products are most suited to the target market, especially considering those less sophisticated investors who are looking to achieve superior returns for their investments whilst not exposing their capital to elevated risks of a permanent loss of capital.

Identify any characteristics of vulnerability in the target market which may impact the value received by those customers

Vulnerabilities may impair a client's ability to plan or make a decision about the longer-term, or to understand the risks and limitations of the product. However, such vulnerabilities would place them outside the target market. The risk is that potential clients incorrectly believe they are in the target market. But where it is established that they are in the target market, notably where their purchase of the product is on the recommendation of a qualified financial adviser, then they would receive the expected value from the product. Visual impairments which may hinder their ability to review performance data, associated investment commentaries and relevant risk warnings.

Identify the drivers of vulnerability in the target market

The drivers would primarily come from a lack of understanding around the investment objectives and an inability to assess the returns generated and any investment activity on an ongoing basis.

Could the customers vulnerabilities impact full/ value use of the product

The main drivers of vulnerability that could relate to the target market including:

- Health, possibly affecting understanding of the risks and limitations of the product, which may be mitigated by appropriate advice and support, or a lack of clarity about long-term circumstances.
- Life-changing events, with similar impacts above, noting that such changes may also be a trigger for potential benefit from the product.
- Financial limitations, either in the short or longer term, which would typically place someone outside the target market
- Poor communication or ability to understand, that again might be possible to be mitigated by additional support and advice.

Do cognitive or behavioral biases of customers impact on the value of the product to the customer?

Not so much the value, but given the product suite offers a range of different portfolios with differing risk and return profiles, then it is reasonable to expect that behavioral biases around the level of risk taken to achieve a desired return could impact on the value of the product delivered to the client.

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. Each investment portfolio has clearly stated investment objectives which are related to absolute return generation over a given period of time.

Do any aspects/limitations of the product prevent the average target customer from fully enjoying the product?

No, although it should be noted in most cases the products are accessed via third party investment platforms and we cannot control the full end-to-end distribution experience because of this.

Does the product allow for comparison to other products in the market?

Yes, performance is published regularly and in a public forum, allowing investors to track and compare performance easily.

Does the product allow for easy switching to another provider or product?

Yes, Blackfinch places no restrictions or charges whatsoever on clients wishing to switch. Although it should be noted in most cases the products are accessed via third party investment platforms and the physical switching of assets will be carried out by these platforms.

Total maximum cost, including all fees / commission payments

The maximum Blackfinch Annual Management Charge for MPS on platform is currently 0.35% per annum. For the unitised funds, the maximum AMC is 0.55%. A weighted average of underlying fund costs will also be paid by the client, but Blackfinch receives no benefit from this. Currently (as at 31/12/2022), the highest weighted average underlying fund charge across our portfolio range 0.63%. There are also declared transaction fees for the trading activities which take place within the underlying funds. Currently the highest maximum transaction costs across our portfolio range is 0.19%. Blackfinch receive no benefit whatsoever from these declared dealing fees as they are levied by the underlying fund houses. In addition, there are likely to be adviser charges as well as platform/custody charges, but these vary significantly and are outside the control of Blackfinch.

Maximum possible cost of contingent charges [i.e. late payment fees]

No contingent costs apply.

Non-financial costs [i.e. data use by the firm]

Primarily, data used by the firm consists of aggregated assets under management across the various investment platforms and underlying adviser firms. Data blackfinch receives on the individual underlying clients is extremely limited, often just including the client's name, the product wrapper, the underlying holdings and the portfolio value.

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. All BFAM products are evergreen.

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 the products are evergreen.

Taking all of the above into account, explain why the product offers fair value to the target customer

The target returns are clearly identifiable and relate specifically to maintaining the purchasing power of the invested capital or generating a minimum level of pre-defined income. Risks of the product are clearly stated on client facing literature as well as a standalone document highlighting detailed risk/reward characteristics of the separate portfolios. The charges are clearly identified, and any quoted performance data is done so net of the Blackfinch Annual Management fees, allowing the client to see a fairer reflection of the net investment returns to them.

Taking all of the above into account, explain why the product offers fair value to vulnerable customers

The fair value points referenced above also apply to vulnerable customers. In addition, Blackfinch have the ability to adapt its literature and other elements of our communications channels to cater for customers with certain vulnerabilities.

Costs

Total costs for manufacturing the product per unit sold

The total cost of the Blackfinch Asset Management Multi-Asset Portfolios, including salaries, operational functions, data vendors and support functions is currently circa £348,000. This is against annual fees of around £590,000. Therefore, for each £1 sold in terms of overall income, the cost is 59.0 pence.

Identify the market rate for the product

The market rate for the product can be broken down into assessing the annual management charges of the investment manager, the weighted average cost of the underlying investment funds within the portfolios and the equivalent costs for multi-asset funds which would also include the legal and administrative costs of operating the fund structures.

At present the market rate Annual Management Charges applied to Managed Portfolio Services ranges from c.0.15% to c.0.40%. Underlying fund charges for blended solutions (employing both active and passive funds within the portfolios) 0.40% to 0.80%. This places our proposition in the mid to upper tiers of cost compared to the broad market rate.

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. The cost is toward the upper end of the market scale, but not above it. The service proposition, investor support, due diligence employed in constructing the portfolios provides significant benefits to the end investor.

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?

All BFAM business comes via professional intermediaries. In the event an adviser believes our investment proposition is suitable for a large portion of their client base, then Blackfinch do offer the option to pay an annual management fee which is less than the advertised rate. This lower fee would therefore apply to all clients of that particular advice firm on an ongoing basis. The rationale for offering this is the benefits that such scale brings to Blackfinch in terms of efficiencies meaning we can charge an overall lower rate whilst remaining commercially viable.

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.

As above, the different 'groups' would be classed as adviser businesses who have identified a significant number of clients who suit our investment proposition. We believe this is fair to charge an overall lower Annual Management Charge given the efficiencies of scale to Blackfinch brought about by one firm placing many client investments with us.

Is there another product offered by the firm which offers similar benefits for a lower cost?

No, only in the events outlined above would investors get access to the same product at a lower fee than that publicly stated.

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, in the event where we consider the financial adviser to be the primary distributor of the product (as opposed to the investment platform) then they do have access to all information both at the outset of the relationship and then at least on a monthly basis thereafter.

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, and to assist with the avoidance of doubt, target market assessments are provided to the financial adviser to this point. To aid the consumer in the understanding of the product characteristics we have developed a proprietary risk and returns document to highlight the typical characteristics of each portfolio. In particular this focusses on likely levels of returns, volatilities and drawdowns over various market events. It is made clear to the distributor at the outset, and on an ongoing basis, the level of charges that apply to each portfolio. Our Terms of Business clearly state the responsibilities of the distributor such as obtaining the required information from the end investor to ensure suitability of the product overall.

Are there any remuneration arrangements with the distributor which may impact the value customers receive?

No.

Are proposed distribution arrangements consistent with the value of the product?

Yes, the distribution arrangement is highly transparent and simple.

Explain how the distribution arrangements support the value of the product

The product is distributed via authorised financial planners and their chosen, regulated investment platforms. Financial planners support the value by providing independent, holistic advice to the end consumer that includes discussing the risks of the product and the intended benefits of the product from a return perspective as well as how these can help to achieve the clients' goals. The third-party investment platform supports the value of the product by providing a regulated operational system to facilitate the trading and custody of the assets. This also includes matters like accepting regular contributions or facilitating withdrawals and/or transfers as required as well as providing tax wrappers to hold the product within such as SIPPs and ISAs.

Findings

Does the product in its current form offer fair value?

Yes.

Explain why the product provides value for the target market

The product provides the consumer with clear, relatable investment objectives where performance is easily measured and judged net of fees within Blackfinch's control.

Explain why the product provides value for the vulnerable customers in the target market

The benefits of the above also apply to vulnerable customers. In addition, Blackfinch are committed to using accessible language to enable all consumers to understand the factors impacting the investment as well as any investment activity we have undertaken on behalf of the consumer.

If the product is sold as part of a package, does the overall package offer fair value?

N/A the product in itself is a collective investment vehicle/offering. Other elements relating to the product such as the investment platform will be selected via the financial adviser.

Are there any adverse findings in this assessment?

None.

Set out mitigating actions to occur prior to distribution or remedial action to prevent foreseeable harms to current customers

There are no mitigating actions needed.

IMPORTANT INFORMATION

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