



BLACKFINCH

GROUP

Blackfinch Investments Limited
MIFIDPRU Disclosures
For the year end April 2022



Introduction

Blackfinch Investments Limited (BFI) is an investment firm, part of the Blackfinch financial services group. BFI provides sustainable investments covering tax-efficient solutions, early-stage investing, managed portfolio services and property financing.

BFI is a private limited company and was incorporated in 1992 (Companies House number 02705948). It is headquartered in the United Kingdom (in Gloucester, Gloucestershire). The parent entity of BFI is ultimately a holding company known as BF Inter Ltd, itself a private limited company incorporated in 2016 (Companies House number 10369765).

BFI is a regulated investment firm (firm reference number 153860). It has permissions, provided to it by the Financial Conduct Authority, which in broad terms allow it to offer advice on and to arrange deals in investments.

Previously, BFI was subject to the FCA's Investment Firms Prudential Rules (IFPRU) rulebook. However, in January 2022, the FCA introduced the Investment Firms Prudential Regime (IFPR), a new regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). The regulation that formalises this regime is called MIFIDPRU.

MIFIDPRU seeks to cover the potential harm posed by investment firms to their clients and the markets they operate in. These rules are publicly available and can be found at handbook.fca.org.uk/handbook/MIFIDPRU.

BFI, by nature of the business it carries out, is within the scope of the new MIFIDPRU rulebook. This rulebook requires us to make certain disclosures about our business publicly available. This document sets out the following disclosures:

- Our risk management objectives and policies
- Our governance arrangements
- A reconciliation of our own funds and the own funds requirements we have calculated
- Our remuneration policy and practises

Content of the Disclosures

Basis of disclosures

This document sets out the disclosures that we're required to make publicly available under MIFIDPRU. The disclosures haven't been audited and don't form part of the annual audited financial statements. These disclosures shouldn't be relied upon in making any judgment about the financial position of BFI.

Our disclosures are made on an annual basis as soon as practical after the publication of our Annual Report and Accounts. They may be made more frequently where appropriate, for example, in the event of a major change to our business model.

Risk Management

Own Funds Risks

Own Funds are a measure of the firms' financial resources, after allowing for its liabilities (i.e. the amount that it owes to others). The level of Own Funds is important as they must meet certain threshold levels set out in the FCA's MIFIDPRU rules. These threshold levels reflect, amongst other factors, the potential harm that might be incurred by a firm's clients and the markets they operate in, for example significant market downturns.

Our Own Funds assessments look at the following risks, although this list is not exhaustive:

- Client Money and Assets Compliance
- Personal Data Management
- Cyber Security
- Headcount and Capacity
- Third Parties and Outsourcers
- Treating Clients Fairly
- Group Risk
- Financial Crime

The chance of a risk emerging, and the financial impact if it materialises, are reflected in the assessment of the Own Funds. This assessment determines the amount of Own Funds BFI must hold at all times. These assessments are refreshed as and when risks alter, or new risks emerge given business activities.

Concentration Risk

High exposure to certain counterparties, business lines or channels can result in an increased risk for BFI. Examples of concentration risks identified for BFI are:

- Client money concentration: BFI places its client money (i.e. money held on behalf of retail clients) with third-party banks. We accept that BFI does have concentrations of exposures to banking counterparties which could give rise to an increased level of risk. However, BFI attempts to minimise this risk by maintaining a diverse portfolio of client relationships and meeting the CASS rules at all times.
- Firm cash concentration: All BFIs own cash is placed with Lloyds Bank. In the event of a default by Lloyds Bank, BFI would rank amongst other creditors in respect of the amount deposited. In BFI's assessment, Lloyds Bank have sufficient own funds and liquidity held aside for these exposures.

Governance Arrangements

Ultimately responsibility for the overall management of the firm sits with its two co-owners, who control 100% of the shareholding of BFI. These individuals fulfil both (a) the role of Directors and of (b) Chief Executive Officer and Chief Investment Officer for the firm.

The Co-Owners meet formally at least once a quarter (with further informal meetings taking place on an ad-hoc basis) and are responsible for ensuring that BFI has a suitably robust Governance and Risk Management Framework in place to make sure that risks are adequately identified, assessed, and mitigated. This is ultimately to ensure that clients' and BFI's own assets are suitably protected.

Additionally, the Co-Owners are supported in their responsibilities by delegating oversight of day-to-day risk management activity to a Risk Committee.

BFI Directors

As noted, BFI's Directors are the co-owners of the firm. The following table describes the number of other Directorships held by the co-owners.

| <u>Name</u> | <u>Number of Directorships held⁽¹⁾</u> |
|------------------|---|
| Richard Cook | 1 |
| Richard Simmonds | 1 |

In the event of any 'tie break' being needed on decision making, Richard Cook will be the casting vote as he is the controlling party by virtue of owning the majority of share capital in the firm.

⁽¹⁾As per MIFIDPRU 8.3.2R, directorships in undertakings not pursuing commercial objective or within the same group or undertaking in which the firm holds a qualifying holding are not counted.

Risk Committee

Although not required to do so by MIFIDPRU BFI has elected to form a Risk Committee. The Committee meets on a quarterly basis and is tasked with the following duties:

- To approve Blackfinch's Risk Policy and Risk Appetite;
- To oversee the Blackfinch's Risk Management Framework in delivery of the Risk Policy;
- To advise the Blackfinch's Board on key and emerging risks;
- To discuss any material risk events and regulatory breaches, to understand root cause and remedial action that is to be taken, apportioning these to the relevant areas of the business.
- To monitor key risk indicators and other management information to ensure that risks are managed within appetite;
- To consider any major findings of any relevant regulator, including but not exclusively the Financial Conduct Authority, and ensure that the business responds appropriately;
- To ensure that improvement actions identified by second- and third-line monitoring teams and external auditors are delivered by the business;
- To assess the risks of new ventures, strategic relationships and other strategic initiatives and any change in the risk profile;
- To ensure that the Internal Capital And Risk Assessment (ICARA) Process is completed in line with regulatory requirements and that risks are appropriately reflected in the assessment;
- To provide review and challenge of the Company's ICARA document and voting on whether to recommend to the Board its sign off; and
- To consider whether the public disclosure of information regarding risk management policies and key risk exposures is in accordance with the regulatory requirements.

| Name | Role |
|-----------------|--|
| Robert Stainsby | Compliance Officer (Chair) |
| Robert Hicks | Risk Manager |
| Claire Gazzard | Head of Operations |
| Nicholas French | Head of Distribution |
| James Cowles | Finance Director |
| Richard Cook | Chief Executive Officer |
| Alex Sumner | Commercial Director and Consumer Duty Champion |

Equality, Diversity and Inclusion

Blackfinch is committed to providing a diverse and inclusive workplace as an equal opportunities' employer. Throughout the employee lifecycle we are committed to ensuring an equal, diverse and inclusive working environment within our business.

We welcome applications from all suitably qualified persons regardless of their ethnicity, gender, sexual orientation, age, disability, religious practice, or any other perceived differences. We have trained our recruiters to avoid bias and make use of psychometric insights, that predict performance to broaden our talent pool and make the process more inclusive to applicants who have had less access to opportunity.

In 2023, we introduced 360, peer reviews and behavioural assessments to our business, whilst these initiatives are still within their infancy, the objective is for our teams to become more self-aware of their own communication styles, preferences and traits and in turn they will become more reflective about their behaviour and attitudes towards others, who are different to them.

We are extremely proud that we are breaking the traditional mould within Financial Services and have appointed, and promoted from within, several female leaders within the business.

We actively monitor gender pay monthly and are committed to closing our Mean and Median pay gap.

As at April 2023, 29% of our staff are from non-White British backgrounds and we are committed to ensuring that we continue to embrace this diversity within our business.

Blackfinch offer a range of benefits, including private healthcare support, enhanced parental leave and benefits policies, flexible working and dedicated mental health support services to foster an accessible workplace that ensures everyone can thrive.

Own Funds Held

Own funds items are subdivided into different categories (common equity tier 1, additional tier 1 and tier 2) which reflect the underlying ‘quality’ of the capital instrument within each class. Table 1 shows the distribution, in high level terms, of own funds held by BFI:

TABLE 1

| | Amount (£k) | % of holding |
|----------------------------|-------------|--------------|
| Total Own Funds Held | 2,629 | 100% |
| <i>Of which -</i> | | |
| Common Equity Tier 1 items | 2,629 | 100% |
| Additional Tier 1 | 0 | 0% |
| Tier 2 | 0 | 0% |

Additionally, MIFIDPRU 8.4 specifies that BFI must disclose:

1. A reconciliation of the firm’s specific common equity tier 1, additional tier 1 and tier 2 items (table 2);
2. A reconciliation of (1) with the capital balance stated in the firm’s audited financial accounts (table 3); and
3. A description of the main features of the common equity tier 1, additional tier 1 and tier 2 instruments issued by the firm (table 4).

TABLE 2

A: Share capital; subject to approval of waiver submitted to the FCA, on 29th June 2022, to recognise this as CET1 capital.

| Capital Instrument | Amount (£k) | Notes |
|---|--------------------|--------------------------------------|
| Tier 1 Capital | 2,629 | Sum of all CET1 and AT1 items |
| Common Equity Tier 1 Items | 2,629 | |
| Fully paid-up Capital Instruments | 85 | A |
| Share Premium | 0 | |
| Retained Earnings | 2,544 | |
| Accumulated other comprehensive income | 0 | |
| Other reserves | 0 | |
| Other funds | 0 | |
| Additional Tier 1 Items | 0 | |
| Fully paid up, directly issued, Capital Instruments | 0 | |
| Share premium | 0 | |
| Tier 2 Capital | 0 | Sum of all T2 items |
| Fully paid up, directly issued, Capital Instruments | 0 | |
| Share premium | 0 | |
| Total Own Funds Held | 2,629 | |

TABLE 3

| | £(k) |
|-----------------------------------|--------------|
| Assets | |
| Trade and other receivables | 3,899 |
| Cash and cash equivalents | 350 |
| Total Assets | 4,250 |
| Liabilities | |
| Trade and other payables | 1,620 |
| Other tax | |
| Total liabilities | 1,620 |
| Shareholders' equity | |
| Share Capital | 85 |
| Retained earnings | 2,544 |
| Total shareholders' equity | 2,629 |

TABLE 4

| | |
|---|--------------------------------|
| Issuer | Blackfinch Investments Limited |
| Governing law(s) of the instrument | UK |
| Regulatory classification | Common Equity Tier 1 |
| Instrument type | Share capital (equity) |
| Amount recognised in regulatory capital (£k) | 85 |
| Per value of instrument (£k) | 85 |
| Issue price of instrument | 100% |
| Accounting classification | Shareholders' equity |
| Original date of issuance | 21/04/2015 |
| Perpetual or dated | Perpetual |
| Rights of redemption | None |
| Dividends | |
| Full discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| Full discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |

Own Funds Regulatory Requirements

We explained the level of actual Own Funds held above. This section describes how we have arrived at our Own Funds requirements.

Components of the assessment

Own Funds Requirement

MIFIDPRU 4.3.2R states that firms must calculate an Own Funds Requirement by assessing three key items :

1. the Permanent Minimum Capital – this is defined by the regulation and is £150k;
2. the Fixed Overhead Requirement – this is a level equal to a quarter of BFI’s fixed overheads – this level is £1,793k; and
3. the ‘K’ factors. These are explained below and for BFI, the K factor total is £273k

The own funds requirement is whichever is the largest of these three key items: therefore, for BFI, its Own Funds requirement is £1,793k.

K-Factors

Four K-Factors are relevant for BFI’s business model:

1. K-AUM: this is 0.02% of an average amount of assets under management by BFI.
2. K-ASA: this is 0.04% of an average amount of assets safeguarded and administered by BFI on behalf of its clients.
3. K-CMH: this is 0.5% of an average amount of client money held by BFI on behalf of its clients.
4. K-COH: this is 0.1% of an average amount of client orders handled by BFI on behalf of its clients.

The table below shows the sum of our K-Factors we have calculated for BFI:

| Item | Amount (£k) |
|-----------------------------------|--------------------|
| Sum of K-AUM, K-ASA and K-CMH | 272 |
| K-COH | 1 |
| Total K-Factor Requirement | 273 |

Own Funds Threshold Requirement

MIFIDPRU 7.6.2R states firms must also assess the own funds needed to address (a) sources of material harm which arise during business as usual or (b) during an orderly wind-down of the business. The Own Funds Threshold Requirement is then the maximum out of these two assessments. It cannot be lower than the Own Funds Requirement, calculated in accordance with MIFIDPRU 4.3.2R.

For BFI, we have determined our threshold requirement to be £1,993k. Since this amount exceeds the Own Funds Requirement of £1,793k we therefore conclude that, to comply (in part) with the Overall Financial Adequacy Rule, BFI must ensure it holds capital instruments in excess of £1,993k at all times.

Given that own funds held can fluctuate any one time, in order to ensure we manage this risk appropriately, we have in place an internal management requirement to always hold an amount in excess of 110% of the threshold requirement.

ICARA Process

Central to a firm's risk management framework under the regulatory regime is the Internal Capital Adequacy Assessment Process (ICARA), which is not only integral to how the firm manages risk but is also central to how the FCA manages the risk of the firms that it supervises.

As part of the ICARA process, BFI considers:

- processes, strategies and systems;
- the major sources of risks that may impact its ability to meet its obligations; and
- the amounts and types of financial resources and internal capital, including Own Funds and liquidity resources, and whether these are adequate both as to amount and quality to ensure that there is no significant risk that its liabilities can't be met as they fall due.

The outcome of the ICARA is formally approved by BFI's Board at least annually, with more frequent reviews if there is a fundamental change to the business or the operating environment.

Remuneration Policy & Practices

General

Blackfinch Group has a number of different teams, which require different remuneration schemes. Each remuneration scheme intends to be structured to enable Blackfinch to attract and retain its most talented individuals. The purpose of each scheme is to reward team members for their skills, knowledge and attributes which they have invested to Blackfinch which in turn has contributed towards the Company's success. Each scheme takes account of the market rate, competitiveness of sector and any nuances which would affect remuneration and therefore the attraction and retention of team members.

In observance of Blackfinch's values, Adapt, Thrive and Evolve we ensure that our remuneration schemes are set at what we believe to be 'competitive' to ensure that the business can continue its growth trajectory, retain and evolve its market position. Our Environmental, Social & Governance (ESG) position requires Blackfinch to ensure that any change in one or more remuneration scheme is equitable, fair and supports our values.

Decision Making & Governance

The Head of Talent has oversight of all remuneration schemes. Remuneration schemes are reviewed annually by the Head of Talent to ensure they remain current to their criteria, are non-discriminatory and continue to be equitable, fair and transparent. There may be exceptional circumstances when one or more of the remuneration schemes are reviewed more frequently in a year; for example should we become aware that market remuneration has changed which could affect our ability to attract, recruit and retain individuals then the remuneration will be reviewed and potentially amended.

To ensure transparency, the findings of the pay review and review of remunerations schemes are made available to the Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Head of Operations (HOO) for review.

Material Risk Takers (MRTs)

In accordance with the FCA rules, Blackfinch is required to identify individuals whose professional activities are deemed to have a material impact on the risk profile of the firm, known as Material Risk Takers. The remuneration rules and disclosures (subject to proportionality) apply to those individuals.

'Material Risk Takers' are identified in line with the criteria included within FCA guidance and include all roles within the Sales Distribution team and some Senior Managers where assessed as relevant. For those team members who are Material Risk Takers, they are obliged to observe and fulfil additional responsibilities. These responsibilities primarily concern ensuring they have the skills, knowledge and behaviors appropriate for them to properly discharge their duties without causing unnecessary risk to the business.

Remuneration Components

Our remuneration policy contains fixed and variable components. We define fixed and variable remuneration as:

- Fixed remuneration reflects the team member's professional experience and organisational responsibility as set out in the team member's role profile and terms and conditions. Fixed remuneration is permanent, does not breach any protected characteristic, is non-revocable and is not dependent on performance.
- Variable remuneration is based on performance and under exceptional circumstances other conditions. Variable remuneration in Blackfinch is performance based and reflects the long-term performance of the staff member and performance in excess of the team member's role profile and terms of employment.

In all cases the balance of fixed and variable remuneration is proportionate. This means that fixed remuneration is of a sufficiently high proportion of fixed and variable remuneration that team members are not financially disadvantaged should they receive only fixed remuneration.

Unique Selling Points

If appropriate the Head of / Director may also put forward a proposed discretionary bonus for their team members'. The criteria for discretionary bonus proposals are not set, because we need to have the ability to remain agile in how we recognise and reward team members in this way. Some examples for consideration for a discretionary bonus include:

- Market rate salaries for each role in the team.
- General performance/output in role over the past year.
- Whether additional professional qualification have been gained during the past year.
- Has the individual taken on additional responsibilities over the last year.
- Whether the team member's general contribution to the team and Blackfinch has increased over the past year, and
- Affordability of increases by Blackfinch

Remuneration Scheme Variations

Ventures Investment Team

The Blackfinch Ventures Carry Scheme is open to all Ventures team members, irrespective of position and role title, albeit the carry points vary according to position within the team. By adopting this position, we ensure that the carry scheme is non-bias, non-discriminatory, does not fall foul of any protected characteristics as defined by the Equality Act 2010. The scheme is designed to incentivise each Ventures team member to continually extend their effort in searching for and selecting the better performing seed companies for investment within the Ventures investment products.

Sales Team

The Sales team do not attract annual salary reviews. Salaries and bonuses are directly linked to the level of the Business Development Manager (BDM). The level of the BDM is directly linked to the generation of set inflows. A BDM will be awarded a salary increase if they are promoted and that salary increase will be dependent on the set performance indicators and the salary will be within the salary band for the performance indicators.

Sales Team Managers may attract salary increases as a direct result of achievement of objectives and may attract a corporate bonus and enhanced benefits. This is to ensure retention of individuals in a competitive market.

Deferral Arrangements

The business does not operate any deferral arrangements.

Clawback Arrangements

Clawback arrangements only exist in regard maternity and paternity pay.

Quantitative Remuneration Data

In accordance with MIFIDPRU 8.6.8 R, Blackfinch Investments Limited is required to provide the following quantitative remuneration disclosure for its Staff as at 31 December 2022. This data is shown in table 5, below.

TABLE 5

| | |
|---|-----------------------------------|
| Number of Material Risk Takers | 38 |
| Total Remuneration (Senior Management) | £2,338,119 |
| Fixed Remuneration (Senior Management) | £1,155,138 |
| Variable Remuneration (Senior Management) | £1,182,981 |
| Total Remuneration (Material Risk Takers) | £3,991,773 |
| Fixed Remuneration (Material Risk Takers) | £2,771,757 |
| Variable Remuneration (Material Risk Takers) | £1,220,016 |
| Total Remuneration (Other Staff) | £6,505,196 |
| Fixed Remuneration (Other Staff) | £5,841,292 |
| Variable Remuneration (Other Staff) | £663,905 |
| Total guaranteed variable remuneration awards | £0.00 – not awarded by Blackfinch |
| Total amount of the severance payments awarded to Senior Management and/or Material Risk Takers during the financial year * | £40,167 |

* The firm has relied upon exemptions under MIFIDPRU 8.6.8R (7) to prevent identification of any individual receiving such payment(s).

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 2023.