

SIPP Provider Financial Strength & Stability 2017

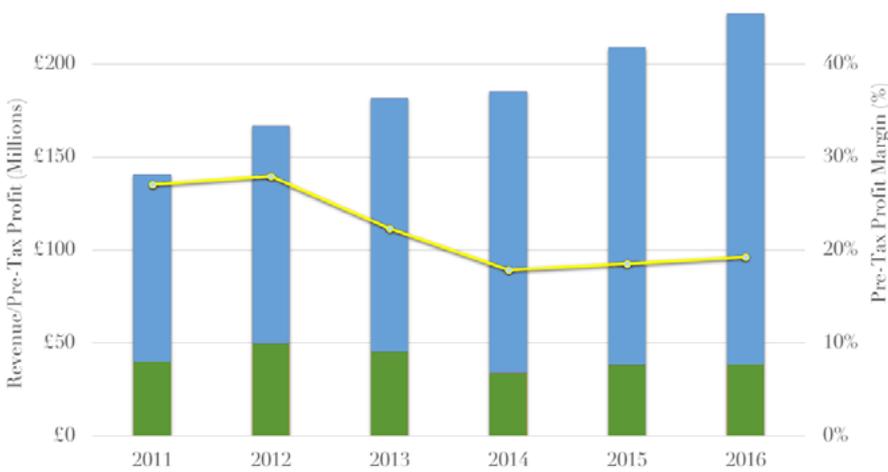
This is the second year of an in-depth independent report on the financial strength and stability of the major players in the 'bespoke' SIPP industry. The report benchmarks the top 16 bespoke SIPP providers who together account for more than 90% of the non-insured bespoke SIPP market.

It's crucial that advisers conduct proper due diligence and assess the financial stability of the providers they recommend and this guide is designed to help them assess the long term viability of SIPP providers.

We are delighted that the report clearly demonstrates the strong position of Dentons within the sector, especially in the context of the ongoing challenges facing the industry.

“Mid-sized players in the SIPP market such as Mattioli Woods, **Dentons**, Xafinity and Talbot & Muir are in a much stronger financial position. They may have a smaller share of the pie, but the pie is bigger than it used to be!”

Profitability of SIPP Providers



“The chart shows the growth of the SIPP industry over the past six years with revenue increasing to nearly £230 million in 2016 and the total number of SIPPs to 1.75 million.”

The three biggest SIPP providers - AJBell, James Hay and Curtis Banks, account for over 60% of the sector however **mid-sized specialist players, such as Dentons, thrive by providing more tailored services for the market segments that the big providers don't serve well.**

With the implementation of the new regulatory capital framework for SIPP providers (PS14/12) in September 2016, it has been inevitable that some providers have felt it necessary to modify their proposition as a

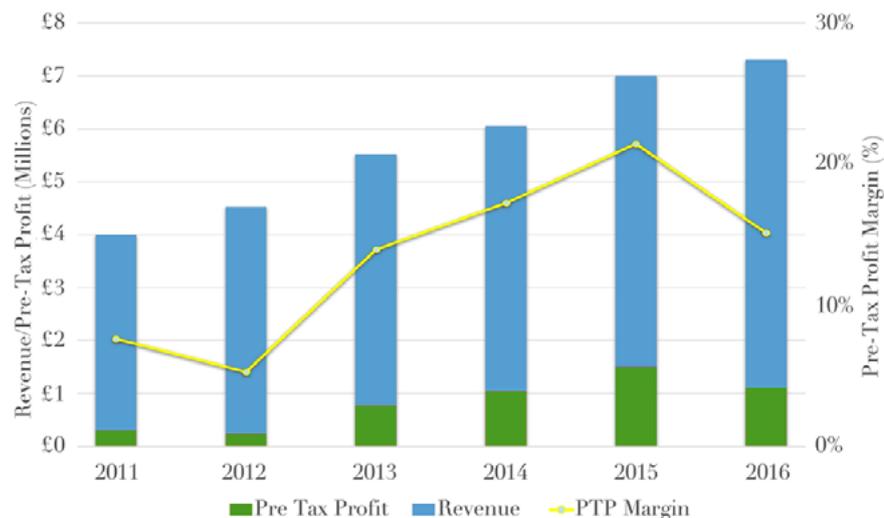
result of the impact of non-standard investments and the market has also seen a spate of consolidation. However there are still indications that some SIPP providers are having a difficult time with at least 3 failing the FCA capital adequacy requirements and 14 firms wrongly reporting their capital to the regulator.

Collectively SIPP providers reported a total pre-tax profit of £40.3 million on their revenue of £227 million, a profit margin of 18% for the year ending 2016.

“Scale will be increasingly important as will the absence of, or minimisation of, legacy investment issues.”

Summary of FinalytiQ's comments on Dentons

GOOD!



“Dentons is something of a success story among SIPP providers.”

Established in 1979, Dentons is one of the very few entrants in the SIPP market that's still standing strong today. Much of its growth has been organic.

Consistently profitable, Dentons reported a pre-tax profit of £1.1 million on its £7.3 million revenue for year ending 2016.

Revenue is up 4% on the previous year, although profit fell slightly in 2016 due to 'exceptional administrative expenses' breaking the trend of the past 5 years of increasing profitability.

The 'exceptional administrative expenses' indicated were the legal and due diligence work carried out

in preparation for, and investigation of, the possibility of an initial public offering. Dentons continues to explore all avenues with regards to the continued development and expansion of the business.

Dentons holds 242% of its £1.75 million capital resources requirement.

FinalytiQ Stability Ratings for SIPP Providers

To create a level playing field, SIPP providers have been categorised based on their assets under administration (AUA) at the end of 2016.

- > **Large:**
£10 billion or more
- > **Mid-size:**
Between £1 billion and £9.9 billion
- > **Small:**
£1 billion or less

The FinalytiQ rating is an assessment of the long-term viability of SIPP providers showing how likely they are to survive and thrive in the highly competitive market place.

Rating	Criteria for providers
A Excellent	<ul style="list-style-type: none"> > Excellent track record of profitability > Increasing market share > Demonstrate hold well in excess of PS14/12 regulatory capital requirement > Provider ranks above peers in most key areas > Provider better positioned to withstand key regulatory and competitive pressures
B Good	<ul style="list-style-type: none"> > Strong track record of profitability > Holds capital in excess of their regulatory requirement > Business has a clear viable proposition in the market place with good profit margin > There may be at least one area where improvement is required
C Average	<ul style="list-style-type: none"> > Business ranks below its peers in many of the key financial stability metrics as indicated by a below average profit margin > Includes where the provider has not produced evidence that they have fully met the PS14/12 capital adequacy requirement. Implies there are structural challenges that need to be resolved by the business.
D Poor	<ul style="list-style-type: none"> > Business falls short on several key financial stability metrics and will require significant support from a parent company for its continued existence > Serious concerns about the long term viability of the SIPP provider

Dentons is rated as a mid-sized SIPP provider

	Embark	Mattioli Woods	Dentons	IPM	Talbot & Muir	Xafinity	Liberty	BW SIPP
AUA (Billions)	£8.10	£4.00	£3.09	£1.91	£1.80	£1.70	£1.44	£1.50
Non Standard Asset	n/d	n/d	10.9%	<2%	12.7%	n/d	7.3%	c10%
No. of SIPP	n/d	n/d	4430	4325	3978	1400	8787	4200
Turnover (Millions)	£11.65	£42.95	£7.30	£2.80	£2.11	£4.88	£2.10	£2.83
Pre-Tax Profit (Millions)	(£1.86)	£6.63	£1.10	£0.50	£0.68	£1.25	£0.40	£0.07
P&L Reserve (Millions)	£0.99	£25.39	£3.12	£2.90	£1.66	£3.80	£1.40	n/d
PBT Margin	(16.0%)	15.4%	15.1%	17.9%	32.5%	25.6%	19.0%	2.4%
Capital adequacy requirement	n/d	247%	242%	138%	105%	n/d	111%	140%
2016 Financial Stability Rating	C	A	B	-	B	B	C	C
2017 Financial Stability Rating	C	A	B	B	B	B	C	C

Please note:

Embark trades under several different brands including EBS, Hornbuckle, Rowanmoor and Avalon.

Mattioli Woods acquired MC Trustees and administer the wind up of the SIPP book operated by Stadia Trustees.

Talbot & Muir SIPP assets almost doubled due to the acquisition of Attivo's SIPP book.

Xafinity SIPP Services Ltd is part of the Xafinity Group which recently floated on the London Stock Exchange.

“Dentons: You can sense an inherent caution in its business, and that's a good thing...”

Ratings for small SIPP providers

	@SIPP	Carey Pensions	London & Colonial	Momentum	Morgan Lloyd
AUA (Billions)	£1.01	£0.90	£0.22	£0.23	n/d
Non Standard Asset	2.5%	n/d	n/d	<1%	24.6%
No. of SIPP	2784	c4900	n/d	1201	552
Turnover (Millions)	£2.70	£1.65	£1.03	£0.70	£0.49
Pre-Tax Profit (Millions)	£0.25	(£0.15)	£0.04	£0.13	£0.47
P&L Reserve (Millions)	£0.01	(£0.70)	£1.06	£0.30	£0.11
PBT Margin	9.3%	(9.3%)	3.67%	19.1%	95.3%
Capital adequacy requirement	131%	n/d	n/d	140%	115%
2016 Financial Stability Rating	C	D	D	C	C
2017 Financial Stability Rating	C	D	D	B	C

Ratings for large SIPP providers

	AJ Bell	James Hay	Curtis Banks
AUA (Billions)	£31.80	£22.10	£18.80
Non Standard Asset	> 1%	< 25%	n/d
No. of SIPP	51000+	52391	72983
Turnover (Millions)	£64.47	£47.50	£29.70
Pre-Tax Profit (Millions)	£16.78	£8.16	£4.49
P&L Reserve (Millions)	£51.92	n/d	£7.59
PBT Margin	26%	17.2%	15.1%
Capital adequacy requirement	> 800%	108%	n/d
2016 Financial Stability Rating	A	A	B
2017 Financial Stability Rating	A	A	B

Please note: Curtis Banks trades as Curtis Banks, Suffolk Life and Pointon York.

Conclusion

Dentons is committed to the bespoke SIPP market and growing our business in a profitable and controlled manner in order to manage service standards for advisers and clients.

At the same time Dentons is always looking for opportunities afforded by our profits and financial resources. We will consider new acquisitions in addition to continual investment in the business for the benefit of both existing and future clients.

Dentons' multi award winning service makes Dentons a compelling solution for your clients.

A copy of the full FinalytiQ report available to advisory firms, includes more detailed data. FinalytiQ expect to update the research in October/November 2017 which will be provided to all subscribers free of charge.

n/d - Not disclosed

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