Aspire Punter Southall

Briefing note

Standard Life and Aberdeen Asset Management merger

Key Points

- **Standard Life and Aberdeen Asset Management have announced their intention to merge**
- **The current Chief Executive Officer (CEO) of each respective company will become co-CEOs of the combined group**
- **The merger is subject to shareholder, merger control and regulatory approval**
- **At this initial stage, changes to any investment processes are not expected**
- **Both Punter Southall Aspire and the Punter Southall Manager Research Committee have no initial concerns**

On 6th March 2017, Standard Life plc (Standard Life) and Aberdeen Asset Management plc (Aberdeen) confirmed that they have reached agreement on the terms of a recommended all-share merger deal.

The proposed merger will create an investment business with £660 billion under administration, of which £580 billion is assets under management, making the group the largest active asset manager in the UK. Aberdeen shareholders will own approximately 33.3% with Standard Life shareholders owning roughly 66.7% of the combined group on a diluted basis.

It has been agreed that the combined group will be headquartered in Scotland and will include, and operate under, branding drawn from both organisations.

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Following the completion of the merger:

- Sir Gerry Grimstone, Chairman of Standard Life, will become Chairman of the Board of the Combined Group with Simon Troughton, Chairman of Aberdeen, becoming Deputy Chairman.
- Keith Skeoch, Chief Executive Officer of Standard Life, and Martin Gilbert, Chief Executive Officer of Aberdeen, will become co-Chief Executive Officers of the combined group.
- Bill Rattray of Aberdeen will become Chief Financial Officer.
- Rod Paris, of Standard Life, will become Chief Investment Officer.
- It is envisaged that the board of the combined group will comprise equal numbers of Standard Life and Aberdeen directors.

The rationale behind this move stems from the belief of both organisations that the proposed merger has compelling strategic and financial benefits.

The suggested strategic benefits are:

- The organisations have complementary investment capabilities with aligned active investment philosophies. Both companies believe in long term, research driven investment where fundamentals drive returns.
- A global distribution with enhanced proximity to clients. The combined group would incorporate 24 unique investment centres, 50 unique distribution locations with clients in over 80 countries. Of the largest fifty clients of both organisations, they only overlap on four, so the combined group will look to exploit the opportunity to deepen their existing set of client relationships through the large cross selling opportunities available to them.
- Broad client offerings to meet evolving client needs. Each company will bring resources and expertise which the other lacks; Aberdeen will bring large resources and expertise in emerging market and Asian equity, emerging market fixed income and quantitative strategies, and Standard Life will bring resources and expertise in developed market equity and absolute return.
- Distribution channels to compete and grow globally.

The suggested financial benefits are:

- Increased diversification of revenues and earnings.
- A focus on delivering cost synergies while maintaining client service. The combined group will target approximately £200m in annualised cost synergies on a pre-tax basis.
- Strong balance sheet and cash generation supporting ongoing investment in growth, innovation and progressive dividend policy.

Both companies have a record of integrating businesses and will be establishing a dedicated integration team to ensure that business continues as usual throughout the merger process. The deal is subject to shareholder agreement, merger control and regulatory approvals and is expected to be completed in third quarter of 2017.

Conclusion

We believe that the proposed merger will benefit Aberdeen. Over the last couple of years they have struggled with poor performance and large net outflows and, although we believe Aberdeen's business is stabilising, this merger will further improve its robustness.

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Aberdeen will expect to see large gains from its access to Standard Life's strong distribution network and large DC and retail platforms that underpin our clients' pension arrangements. Amid growing regulatory and competitive pressure, the deal will build scale, cut costs and help to expand the product range of both companies.

Changes to funds' investment processes are not expected at this point and we believe both Aberdeen and Standard Life will ensure that any impact on their flagship funds will only be positive.

Overall, the shareholders in both companies are likely to be the biggest beneficiaries.

Both Punter Southall Aspire and the Punter Southall Manager Research Committee have no initial concerns; we will continue to research this proposed merger in more depth and keep a close eye on future developments.

Produced jointly with our colleagues in Punter Southall Investment Consulting.

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