Deloitte.

Creating value through M&A
A guide for Investment and Wealth Managers

M&A

Contents

The quick read

M&A is a crucial route to growth for investment and wealth managers. The sector has an oversupply of market participants across the value chain, and is rapidly consolidating. Sadly, there are more examples of a job badly, or only partly done, in terms of genuinely delivering the benefits of M&A through effective integration. That needs to change, not least because the safety blanket provided by market appreciation has been pulled away. Clarity on operational design and technology strategy, disciplined execution, and effective people management are all key themes that emerge as critical in M&A integration:

1 Strategy shapes approach

Transaction value drivers should determine both the overall approach and the areas of business that should be integrated. For example, the objectives of a domestic deal between two similar investment management firms will be significantly different between two firms with complementary but different investment strategies. The first will be focused on cost synergies and the elimination of duplicative front, middle and back office capabilities, whereas the latter will be primarily focused on the distribution strategy needed to achieve revenue synergies.

2 Managing cultures effectively is crucial

Cross-border versus domestic, private versus listed, and big versus small company combinations present the areas of greatest cultural risk, often exacerbated by differing investment ethos, proposition sets or client service models. The integration should seek to identify the level of cultural challenge as early as possible, pre-deal and then deploy deliberate actions to create a post-merged culture that fosters common behaviours and ways of doing business. Getting this wrong can crystallise shorter term talent attrition and also create a longer term legacy of division.

3 Integrations do not manage themselves

It should not need to be re-said, but it does: given business-as-usual operation is vulnerable to merger stress, a robust governance structure and a resource capacity review of the work-streams within it are critical. Furthermore, an appropriately resourced Integration Management Office (IMO) is essential, together with accountable functional leaders, visible progress measurement and senior executive grip.

4 Deliberate talent retention is vital around any M&A

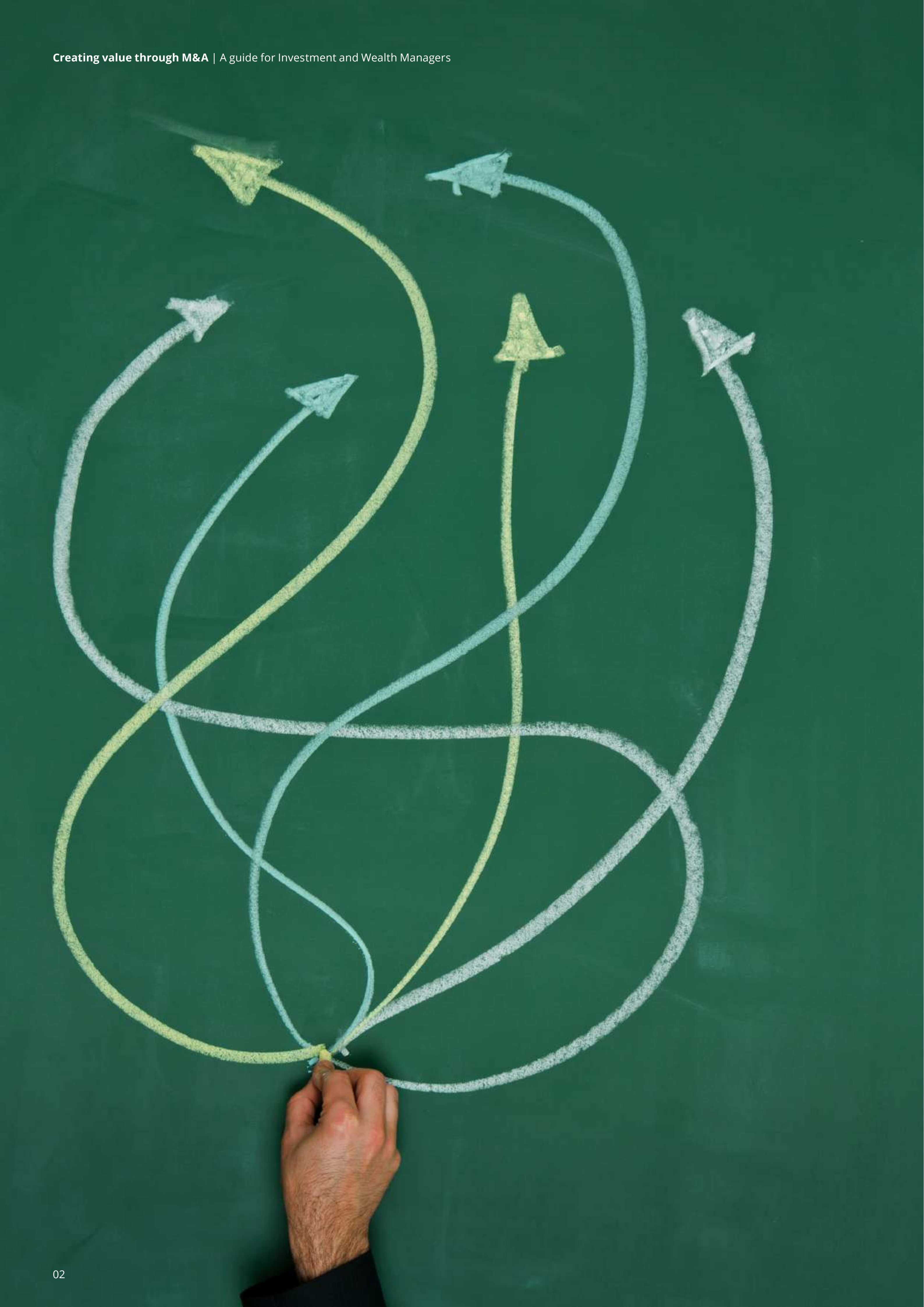
Where other businesses may be able to rely on proprietary technologies, market dominance or brand power, this sector's key asset is its investment and wealth managers – these are people who can leave. Retention involves identifying and engaging key people early, having a clear communication strategy and minimising the period of business and cultural disruption. Retention packages and compensation models are necessary tools, together with "hearts and minds" communications focused on reassurance and trust.

5 Operational integration is key to deal success

Running multiple platforms is costly, but at the same time, system conversions significantly increase execution risk. Agreement on operational platforms should be established as early as possible, not least because those choices directly determine synergies and integration costs and influence ultimate deal value. This early clarity should help mean that an efficient route to execution can be safely progressed post-deal. Typically, single rather than multiple outsource providers, at least regionally, should be the goal where possible, to cut costs and complexity. Finally, there is a people facet even here: investment and wealth managers are used to steady state running and gradual change. Therefore, the challenge is not just integrating systems, but often of also delivering a user experience that replicates the look and feel of what the business users are accustomed to.

6 Synergy targets require discipline to be delivered

The industry has not always been good at this, and historically, market appreciation has helped hide this somewhat. A detailed synergy plan with specific, quantified financial targets, owned by accountable executives, and a reliable tracking process is essential. Synergy targets that are outlined at the outset need to be further developed during diligence and then implemented post-signing in line with budgeted phasing.



Introduction

The investment and wealth management sector is going through substantial change. The following key trends are impacting the sector, creating both challenges and opportunities:

- A secular shift of assets from defined benefit to defined contribution savings and the rise of wealth in Asian markets.
- Evolving business models and increased vertical integration from product development to distribution.
- Continued regulatory pressures across all aspects of the business.
- Achieving differentiated saving and investment outcomes in uncertain markets, exacerbated by structurally lower risk free real rates of return across the developed world.
- Downward pressure on fees in certain asset classes and parts of the value chain, through increased competition and transparency.
- The imperative to harness new technologies to protect against disruption and improve cost efficiency.

These trends combine to make it increasingly difficult for firms to deliver sustained organic earnings growth. This has driven a market appetite for achieving better scale and improved capability through inorganic routes.

The opportunity to create something new and better through M&A, and to do so quickly and effectively, need not descend into unanticipated crises, unplanned costs and huge management distraction – but often does.

Why?

Firms in this sector are often mid-sized businesses, without dedicated M&A or change resources. Their front office businesses are highly dependent on talented individuals – who are independent, well remunerated and very mobile. They also utilise IT systems that can be notoriously difficult to integrate, and have clients who are sensitive to any disturbance of business as usual. These attributes can conspire against acquirers without a clear and actionable vision.

To understand a better path to value creation, we interviewed a range of UK and US investment and wealth managers (COOs, CFOs, Integration Directors and Corporate Development), as well as our own Deloitte post-merger integration experts across strategy, human capital, operations and technology.

The findings in this paper build on the CaseyQuirk publication *"More Perfect Unions: Integrating to Add Value in Asset Management M&A"* released earlier this year[1], providing real life, practical experience of how sector participants have confronted integration challenges and what they have learned as a result.

In these pages we've covered not only investment managers, but also wealth managers. Whilst there are clear differences between the two sectors, vertical integration is an increasingly important driver of M&A, with routes to distribution becoming more blurred. Moreover, there is commonality in terms of people-centricity and financial models, and therefore, many of the integration themes are similar.

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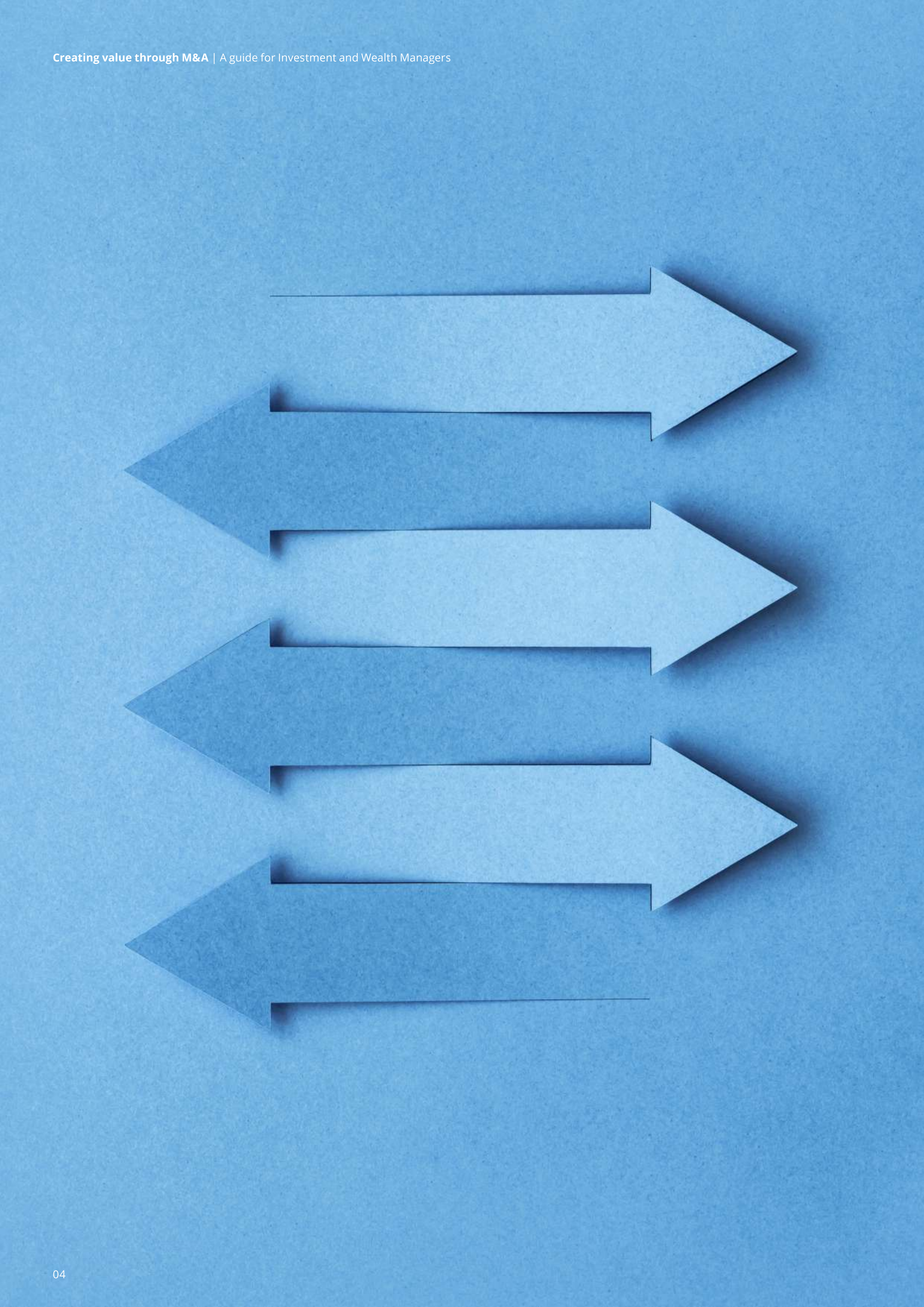
1. https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-integrating-to-add-value-in-industry-m-and-a.pdf



1. Strategy shapes approach

Knowing what you want from a deal is the foundation of all successful mergers and acquisitions.

The strategic rationale and investment thesis for a transaction (including the expected return and financial effects), cannot be assessed separately from a clear vision of how the target will be combined with the acquirer.

It is only when investment and wealth managers know exactly what they want to get out of an inorganic growth strategy that they can set effective integration strategies and structures.

A desire to expand strategic footprint – by acquiring new manufacturing capability or access a new distribution channel – or a belief that a larger combined business can drive significant scale cost synergies, as well as opportunistic purchases, are the most common motivations for M&A. To successfully achieve those ends, firms need to address several key questions, including which elements of the individual business operating models should be integrated, and what the cost of integrating or upgrading technology and processes is.

For example, the objectives of a domestic deal between two similar investment management firms will be significantly different to a cross-border transaction between two firms with complementary investment strategies. The first will be focused on complementary but different cost synergies and the elimination of duplicative front, middle and back office capabilities, whereas the latter will be primarily focused on the distribution strategy needed to achieve revenue synergies.

In a wealth management context, valuation multiples expand for bigger and more diverse businesses with stable, recurring earnings and operating leverage. That multiple expansion, created through both achieving scale and extending economic participation across the value chain, will often be a key value driver of M&A. To maximise this, demonstrating you have consolidated the "advice process" to a controlled platform and/or investment solution is vital.

Lastly, any integration plan needs to be alert to existing issues in either the acquirer business or issues at the target identified through diligence; simply combining two challenged businesses will not, of itself, solve problems, however effective the programme management.

Hence, the integration plan and priorities absolutely need to be driven by the strategic rationale for a transaction, the desired end state, and any known issues. Each will differ. However, all the firms who have contributed to this report agree: when it comes to M&A and the integration challenges that follow, plan always beats no plan – and early plan beats late plan.

The Integration Director at a global investment manager says that all the assumptions that govern the purpose and execution of the deal should be stated clearly and agreed very early on, and embedded in the governance structure. "Normally, something like **ten to fifteen key assumptions should be stated and agreed at the very start of the integration process**," he says. "This is crucial to set the scene."

> "Where issues are kicked down the road with a view to sorting them out later, that typically does not go well."
>
> ***Investment Manager***

The Director of Corporate Development at a wealth manager adds "a key mitigation of deal risk is **making sure that all the major integration issues are outed as early as possible; you have to make the threshold for issues a low one**. And that means you need to lock down questions like how the balance of cultures will be managed between integrating firms, how long managers will stay at the newly integrated firm, what the front office view is on strategies and approach for the future, plus any due diligence issues."

And timing is frequently the making – or the unmaking – of M&A deals. That is not about being lucky on market timing, although history shows that the perception of transaction's success can certainly be aided by buoyant markets in the year or two after closing. From an integration perspective, our clients tell us that dealmakers need to be selective in deciding what needs to be in place early, what needs time to mature, and what doesn't need to be done at all.

Forcing integration can be culturally counter-productive if the aim of the M&A activity is increased revenue scale or capability, rather than cost synergy, says the Head of Acquisitions at a wealth manager: "we are not very aggressive on integration timescales, as cost synergies have not been a key driver of our deals. Our acquisitions usually retain responsibility for running their own businesses."

Timing does not mean that integration is always best if done fast. The Chief Operating Officer at a wealth manager says that speed can be the enemy of success in some post merger integrations. "We performed a post-deal client migration that was done to a deadline with great time pressure. **There was not enough time to syndicate thinking, it landed poorly with client managers** and they did not feel as if they owned the process. And as a result the whole exercise has had to be repeated, more carefully."

2. Cultural fit is critical

Culture is at the centre of an integration – early communication and clear change management are major success factors.

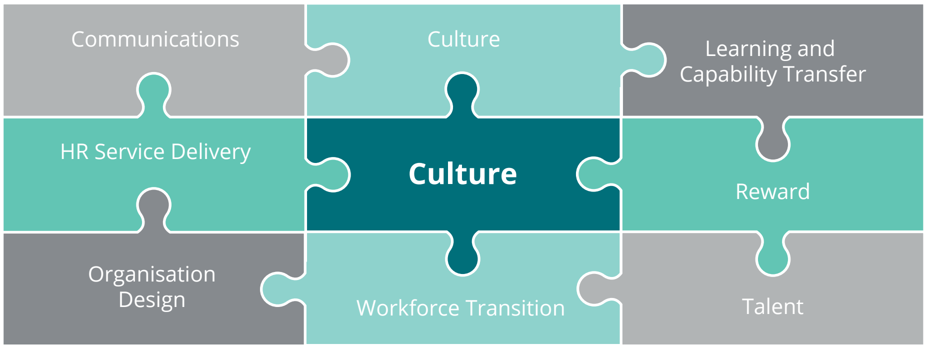
Industry professionals agree: integrating cultures in investment and wealth management businesses is very often the biggest challenge. Private investment and wealth managers tend to be collegiate partnerships driven by individualistic members who prize the culture they have created and who are very sensitive to alterations in that culture. As the Integration Director of a global investment manager says, "**culture is almost always the hardest issue in an integration**, it takes the longest to finalise, and it has the most impact on the ultimate outcome. Culture drives behaviour and how decisions at all levels of an organisation are made."

The culture issue in M&A at investment and wealth managers takes multiple forms. It typically relates to ethos of an investment process or the client service model, and is a matter of history, legacy, and style of business, often strongly shaped by the character of founders or significant leaders.

In an investment management context, this can be related to how collaborative the investment process is across different teams and desks, and the role and leadership a Chief Investment officer brings, versus a more autonomous "star manager" model.

For wealth managers, we will often see differences between financial planning-led approaches versus relationship managers, and within that, differences between relationship managers who are distributing a more centralised range of investment solutions, versus those who have the autonomy to serve their clients in a more bespoke manner.

Figure 1. The elements of people transition and cultural change



These are but two specific examples: other drivers of cultural friction can emerge from differences in scale, geography, ownership (partnership versus private versus public) and corporate personality (as manifested in the control, infrastructure and governance frameworks of different organisations).

Managing cultural differences and integrating cultures

"Cultural fit can be challenging as a result of a big and small firm merging," says the Director of Corporate Development at an Investment manager. "There may be a clash between small and big firm culture. Additionally, you can have firms which feel quite democratic versus those which are more hierarchical firms coming together – and that's another clash. The key mitigation for all these types of clash is **test cultural fit as early as realistically possible**."

"We had a transformational integration where the fit between a US and UK business was the key challenge," says an investment management executive. "There was a lot of initial miscommunication – mainly over the phone – early on in the process. The key mitigation was to get people into the same room by investing in their travel and accommodation. We had decided right from the start to have a single platform, very focused on cost base and scale, and that means that **close alignment was extremely important and therefore worth investing in**."

At the other end of the spectrum to transformational mergers, smaller bolt-on acquisitions also need to be compatible to get value, says the Chief Operating Officer of a wealth manager. "Rather than trying to accommodate exactly what the sellers may want to do, it is much more efficient to ensure that bolt-ons conform to the requirements of the acquiring firm," he says. "**Accommodating all the requirements of incoming management can be a waste of time and value**. That is why only about one of every eight of our potential deals goes ahead – it is because of concerns about compatibility."

One wealth management firm's approach is to open communication with incoming client managers as early as possible to help them 'go on a journey'. "The **transitioning advisors need to buy into our model and proposition**, and we work closely with the owners of the business being sold to communicate this message," says the Head of Acquisitions. "This will be tailored to each adviser individually and focused on reassuring them on how their own goals can be achieved in our model."

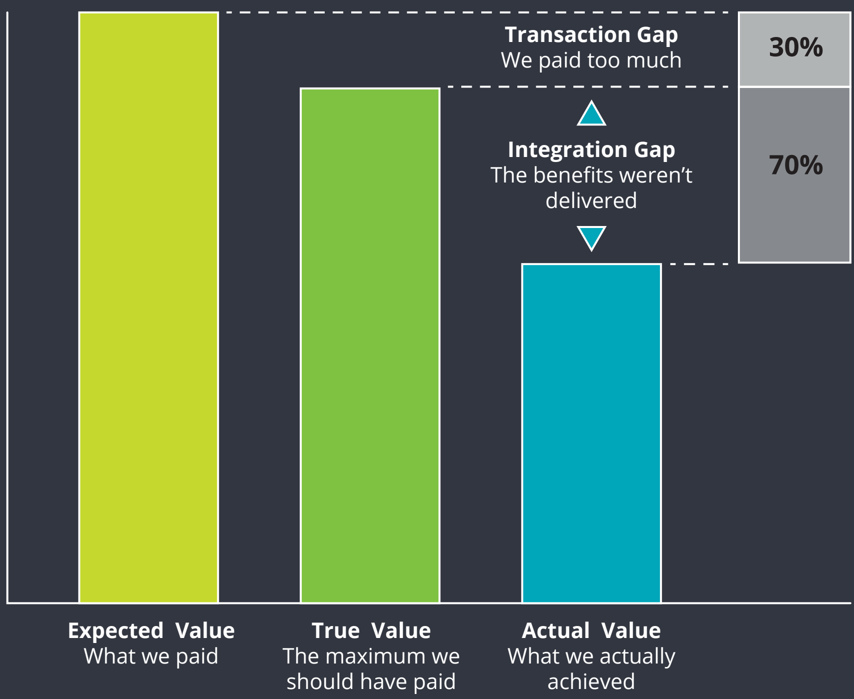
> "With smaller firms you often have a small number of people who started the business still in charge, and they can be the most difficult to persuade to change."
>
> ***Wealth Manager***

3. Managing integrations

Merger failure is not only caused by buying the wrong business – it's as often about how it is integrated.

Managing the integration phase of an acquisition is a serious challenge. The risk is that the value of the deal becomes eroded during the integration phase, and might even be lost entirely as costs rise and key talent leaves the business. Planning and a clear structure are vital from day one. "Managing integrations well requires both management expertise and management capacity. We have recently seen integrations that have gone wrong because of the difficulty of keeping the day-to-day business running at the same time as managing the integration" says Andy McNeil, Partner Deloitte.

Figure 2. The integration gap



Source: Deloitte interviews and analysis

30%

Common transaction errors

- Weak analysis of potential targets
- Desire to do the deal results in overpaying
- Gaps in due diligence caused by rushing
- External market conditions change adversely during the transaction
- Poor valuation or price negotiation
- Integration issues not considered as part of the transaction

70%

Common integration errors

- Lack of programme leadership
- Lack of executive alignment on deal rationale
- Merger synergies not fully identified during the transaction phase
- Integration governance set up inefficiently
- Weak or inadequate integration planning and execution
- Decisions taken too slowly
- Business as usual gets forgotten, customers suffer and performance deteriorates
- Weak communication and people engagement

> "The governance structure is critical. Typically the Chief Operating Officer and the Chief Technology Officer team are involved in governance – but one thing is sure, if you lack a governance structure that is bound to cause issues."
>
> ***Asset Manager***

According to the experienced integration managers at investment and wealth management businesses we interviewed, effective mitigation of these challenges is aided by structuring the integration process with a sufficient level of work-streams and resources, and ensuring an adequate flow of quality management information including risks, issues and dependencies management through planning to execution stages. Furthermore, programme structure and roles and responsibilities should be customised based on integration requirements.

Figure 3. Example governance diagnostic to design programme structure

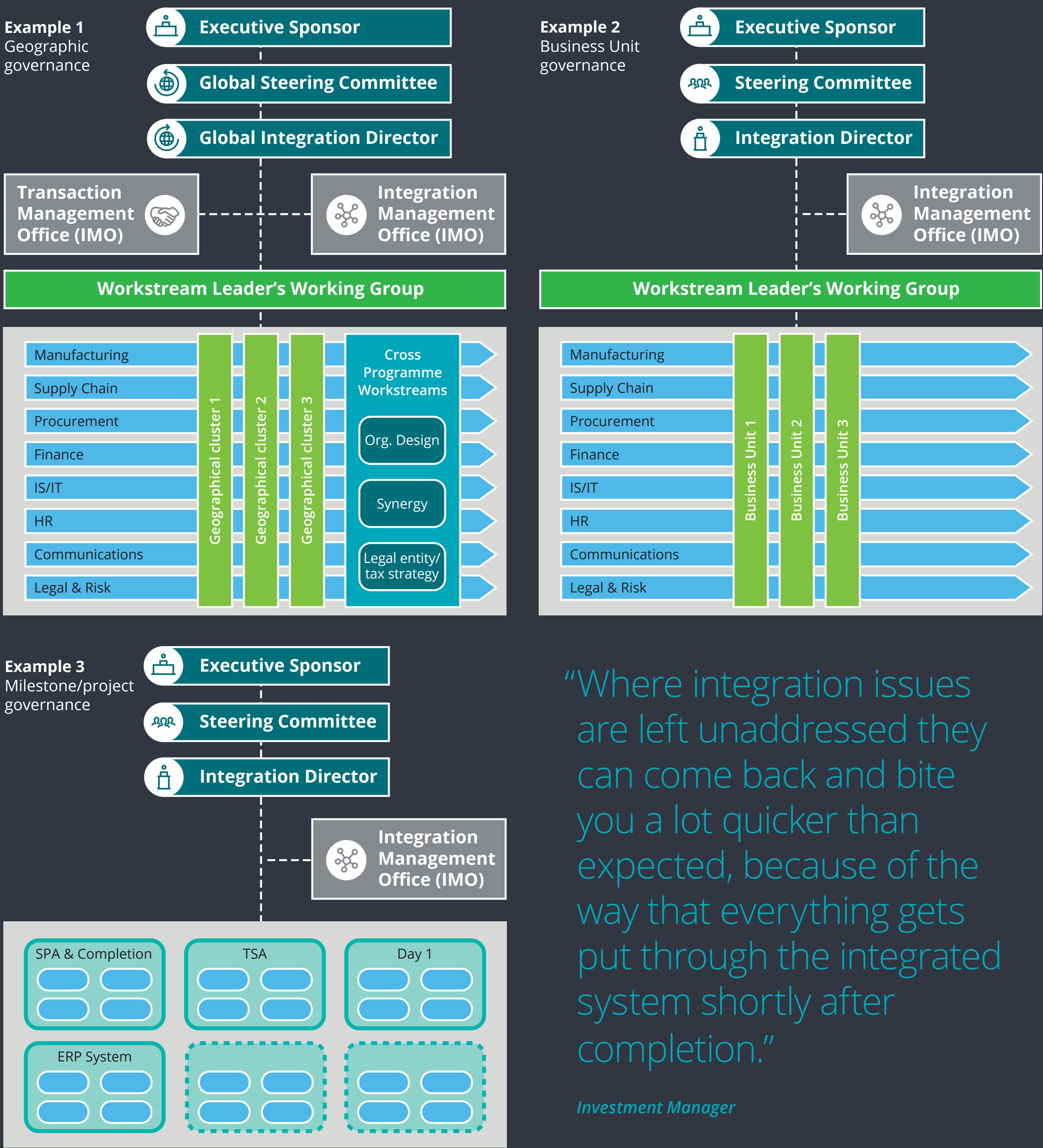
Diagnostic dimensions				Questions to answer
Geographies	1	2-5	>5	• How best to manage the geographic impact of the transaction? • Does the transaction impact some geographies more than others?
Divisions	One BU	Multiple	All	• Is the transaction happening in a single business unit or across multiple? • What will be the commercial impact of the integration?
Delivery Ownership	Functional	Outcome/Project	Mix	• Who owns the delivery of the integration – functional leads, project leads delivering a specific outcome e.g. Day 1 or a mix of both?
Transaction Ownership	M&A Team	Division	Group	• Who is accountable for delivering the transaction and who should be part of the key decision making bodies? (signing and completion processes, transaction documentation, legal and financial matters etc.)
Nature of Transaction	Bolt On	Acquisition	Merger	• Who should be part of the different workstreams? How to best leverage existing business knowledge in order to implement the target operating model?
Culture/Mindset	Friendly	Challenged	Hostile	• What should the integration team look like in order to manage the internal dynamic and facilitate quick decision making?
Degree of Integration	Standalone	Partial	Full	• How big does the programme need to be to manage the integration workload?
Transition stages	One Step (D1)	Two-step	Multistep	• Would the integration team need to change during the different phases of the integration? How would this be best facilitated through the design?
Speed	<1 month	2-6 months	>6 months	• What is the time horizon for the integration programme? How would the integration workload need to be assigned? How big should the programme be?
Stages of the M&A process	Before signing	At signing	After Day 1	• How urgent is it to mobilise the programme? How quickly should the mobilisation be performed? Are the right skillsets readily available to kick off the work?

Source: Deloitte Analysis

For example, a wealth manager with extensive integration experience cited ten or eleven individual work-streams across key areas. And in the case of a large global investment management integration, the acquiring business set up 26 work-streams globally. "**Particular investment was made in travelling and bringing people together**," says the Integration Director. "More time than might be usual was spent together, quite a lot of people moved location temporarily, and the two firms became more embedded as a result, with the firm moving to a single model in nearly every function" over time.

"Good management information throughout the process is key. This requires honest status reporting from all work-streams – management needs to be forewarned of problems, and you shouldn't end up with a sudden switch from green status to red. **Neither should the CEO just assume these things will be okay – they need to be managing and running the process**, and making sure the IMO is able to manage across cultures." In our experience, the reporting needs to cover not only financial, but also operational and cultural metrics.

Figure 4. Three examples of resulting governance structures



"Where integration issues are left unaddressed they can come back and bite you a lot quicker than expected, because of the way that everything gets put through the integrated system shortly after completion."

Investment Manager

Source: Deloitte interviews and analysis

Managing Integrations

We asked senior executives at a range of investment and wealth managers to describe typical issues with managing integrations, and how they addressed those challenges.

Invest in a well-resourced Integration Management Office ("IMO") suggests the Integration Director of a global investment manager. "Investment managers are typically smaller than banks, for example, and that means that heads of department are often managing people across multiple locations. This is unique to investment management, it causes challenges and integration needs to take this into account. This is where we found that an IMO makes a big difference, especially when it comes to collection of accurate information."

Don't let integration challenges interfere with business-as-usual, counsels the Chief Operating Officer at a large wealth manager. "We have had integration managers who are external and that has worked well," he says, adding "ideally we would prefer the head of integration to be an internal resource. But, that said, you do need someone to manage the integration who does not have a senior business-as-usual role, and that probably also means the role has to be specifically incentivised."

Cross-border mergers bring special integration challenges
"The regulatory issues are unique," says a senior executive at a global investment manager. For instance, "The US SEC is a rules-based system, whereas almost every other regulator is principles-based. This makes it challenging to interpret and correctly apply the regulations, and therefore challenging to integrate."

4. Talent tops the agenda

Retaining relationship and fund managers is critical. During periods of speculation and uncertainty, such as during a transaction, retention becomes increasingly challenging.

There is consensus that building a productive culture and working on it even before a deal is signed is very important. "The culture needs to be right," says the Director of Corporate Development at an investment manager. "For example, some smaller private managers like to feel the culture is democratic, while managers in larger corporates are often used to something quite different. You have to balance out these cultural differences if you are going to retain key managers. **You may need to work on getting managers on board before the deal is signed** – but you will also have to consider how much access to them you get at that stage."

Early **re-assurance on rewards** is also critical. "A recent acquisition of ours went well because discussions on compensation took place before signing. We lost no client managers, and that in turn meant the newly integrated firm could concentrate on going out to win new business rather than spending time protecting the book against former managers who leave to join competitors."

Time and again, executives stress the **need to act early** to secure key people buy-in. "The key to avoiding departures is to get senior practitioners together to bond early with a 'meeting of minds session'," says the Director of Corporate Development at an investment manager. "We also try to bring senior practitioners to negotiation meetings before the deal is signed; that can be an effective strategy."

A wealth manager adds that it is important to **identify and retain the leaders** in an acquired business. In practice, this is typically the tier of executive committee direct reports, although in larger organisations, it will also include the next level down. "We try to ensure we retain leaders for at least three years," says the Head of Acquisitions. The COO at another wealth manager says that his firm considers that locking in key revenue earners is a primary integration aim. "The key to doing this is to initiate early discussions, designed to demonstrate what the integration will mean in terms of reward. That is what keeps client managers."

Hence, deal financials should include a generous "retention" fund and an initial "level up" of compensation rather than a "level down" can be powerful for retention, and needs to factored into the valuation.

Finally, wealth and investment managers stress that keeping key people should not be accomplished at the cost of consistency in the integrated business, because **inconsistency generates dissatisfaction**. "HR issues such as contracted hours in a working week, employer pension contributions, benefits packages and the number of days holiday can all cause resentment if not consistent across an integrated business," says the COO of a wealth manager. "The best practice is to streamline businesses in this respect as quickly as possible, ideally between signing and completing so that people are already aligned. This is something we have found to be a significant challenge."

Client retention is the ultimate aim

Investors are highly sensitive to anything that can be perceived as undermining existing relationships or destabilising performance. An executive at a global investment and wealth manager highlighted that "**any disturbance of clients creates risks that they move their money**. Client interaction therefore has to be planned and carried out very carefully. Even asking clients for permission to merge might be a catalyst for change. The wealth management side of our business is particularly vulnerable here because the client interaction side is much more intense and personal than in the investment management sphere."

Rapid integrations can be more risky. "We have underestimated the effort and time it takes to move clients to a new proposition," says the Head of Acquisitions at a wealth manager. "**Migrations will take time if you want to avoid catalysing attrition**." The Integration Director of global investment manager agrees: "we acquired a business for its distribution and marketing capabilities and it took five to six years to integrate it," he says. "The reason for that was retention of clients. The more that stays the same, especially on the investment side, the less you will lose investors."

"When you merge two businesses you can find that historic perceptions, which may in fact be quite out of date, can have a surprisingly large ability to cause people to have concerns."

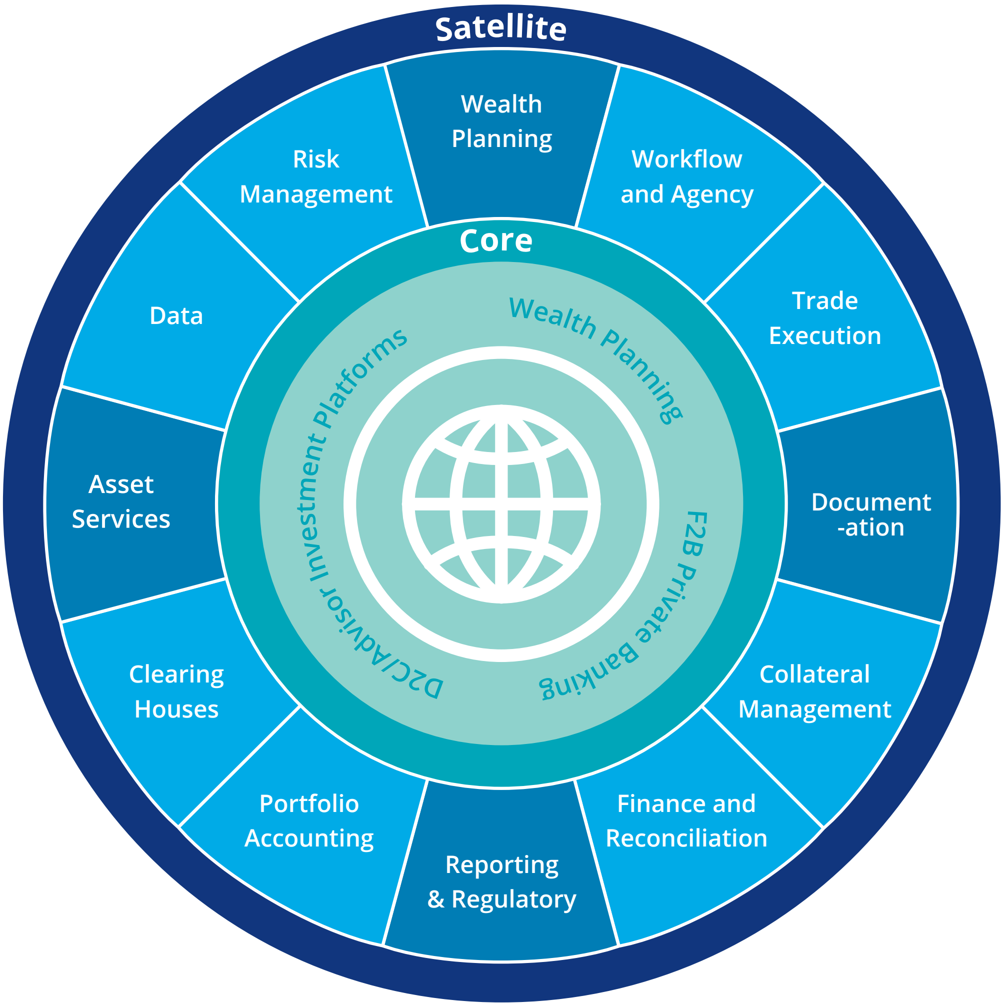
Investment Manager

5. Operational integration

Technology Ecosystem

A diverse range of core and satellite technology solutions support the wealth management ecosystem.

Figure 5. The wealth management technology ecosystem



Core

Wealth Planning
Interlliflo Distribution Techology Iress Voyant Focus Solution

F2B Private Banking
Avaloq Temenos FIS Misys IPBS

D2C/Advisor Investment Platforms
FNZ GBST Bravura SEI IFSD

Satellite

Wealth Planning
Adobe Marketing Cloud Salesforce Microsoft Dynamics CRM

Documentation
Thunderhead Easylink Sharepoint RR Donnelly Dynamix Convoy

Reporting & Regulatory
Crystal CrestCo Ltd Accuity (AML) Getco Europe Business Objects

Asset Services
HSBC State Street BNYM JP Morgan Northern Trust

Workflow and Agency
Acorn BPM AWD Sonata (integrated workflow)

Trade Execution
EMX (Euroclear) Swift Euroclear Fundsettle Clearstream (Vestima)

Collateral Management
Activeviam FIS DTCC Lombard Risk

Finance and Reconciliation
CashFac SAP Oracle AutoRek Crest Electra

Portfolio Accounting
Portia Multifonds Tradar InvestOne InvestPro HiPort

Clearing Houses
Message Automation ICE LCH Trriarna CME

Data
Markit S&P PolarLake Moody's Bloomberg Golden Source SmartStream Thompson Reuters Asset Control

Risk Management
StatPro RiskMetrics SAS Finametrica

Source: Deloitte Analysis

> “Having the desired end state front of mind throughout the process is key.”
>
> ***Tony Gaughan, Investment Management and Wealth Sector Leader, Deloitte***

Our CaseyQuirk publication *“More Perfect Unions: Integrating to Add Value in Asset Management M&A”* gave significant attention to the operational and technological aspects of integration in the investment management sector, whilst the schematic presented in Figure 5 also demonstrates the diverse universe of technology applications in a typical wealth manager.

Our work for this paper really underlined that investment and wealth management firms are increasingly technology dependent businesses: the front office may be driven by individuals, but these are individuals with strong preferences around technology platforms which support them. And for those investment managers who run passive, quantitative active or absolute return, front-office technology is even more vital, even proprietary. More naturally, back and middle office functions stand or fall on the quality speed and reliability of their activities. Acquisitions always raise questions over how to merge technologies that are frequently challenging to integrate.

A senior operational executive at a wealth manager argues “**it is crucial to agree early on what the operating platforms will be** – you have to consider these as part of the deal, and part of the signed agreement,” he says. “Remember that this will be a key synergy driver. Technology may not always be the driver for the deal, yet it is key to its success.”

‘Front-to-back’ technology platforms have become increasingly complicated in the last few years. That means that integrating platforms, such as Aladdin for investment managers, is not easy.

Investment and wealth managers are used to steady state running and incremental change: therefore the challenge in addition to integrating systems is often one of delivering an integrated user experience that replicates the look and feel of what the business users are accustomed to.

“**Compatibility of data between merging investment management firms can be a huge issue**,” admits the Director of Corporate Development at one investment manager. “Incompatibility of data in terms of type and format can result in a huge amount of additional work. The result can be the manual transfer of a lot of data which is extremely time consuming and expensive, and it is most expensive when you have dual running of systems while data is transferred and reconciled. This is why you have to discuss operational details as soon as possible in the acquisition.”

> “All our acquisitions have involved two parties both using the same IT outsource providers – that makes the integration much easier.”
>
> ***Wealth Manager***

6. Realising the synergies

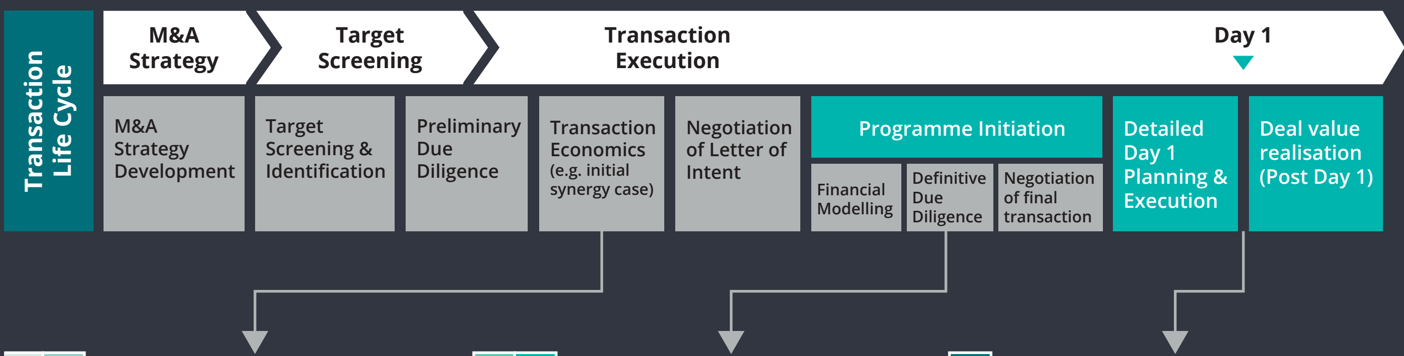
As operating margins in the industry continue to face headwinds, the promise of synergy will remain a powerful driver of M&A. Just as frequently, realising those synergies will prove highly challenging.

"The biggest challenge in the industry as a whole is protecting margin and focusing on profitable growth, so for many firms the question is how can M&A increase my ability to improve my margin while meaningfully growing revenues?" says Jonathan Doolan of investment management consultants Casey Quirk. "In Europe, synergies could result from an expanded presence in the market through a more diverse set of offers to bring to your existing distribution networks or through expanding the overall distribution footprint. It could also be the middle and back office, which initially benefits most from M&A, for example by unifying the middle and back office around a strong technology platform at one of the firms reducing redundant inefficient processes. Pursuit of scale is paramount, firms have used M&A to build multi-product capabilities, perhaps giving passive investments to clients for free and then talking to clients about other capabilities with higher fees."

Investment managers recommend that mergers should be accompanied by a **specific synergy plan**. "In a three-year synergy plan, 70% of synergies should be achieved in year one, especially in relation to headcount," says the Integration Director of a global investment manager. "The integration process needs to be managed very tightly from the start – you need to allow people to focus on achieving synergies."

The synergy case should sit at the heart of the programme and drive the scope of integration planning and execution

Figure 6. Development and validation timeline



1 2 Step 1: Early synergy view

- This is a '**top down**' desktop exercise, prepared with publically available information during the bidding process.
- The early synergy view reflects **high level estimates**, sometimes supplemented by early due diligence and management's experience.
- This will **set acquirer expectations** and will usually lead to a **prudent announcement** of synergies and costs.

3 4 Step 2: Detailed synergy case

- With greater access to information, synergies are further developed from the '**bottom up**'.
- These are broken into **workstreams** by **functional areas** with accountability and ownership established for each.
- The outcome of this exercise will **refine the story** previously announced to the market.

5 Step 3: Final view and tracking

- Completion of the deal will allow **freedom to exchange information** and unrestricted access between the acquirer and the target.
- This will allow for a **final synergy view by project** with a baseline for comparison to be agreed.
- A process to support **benefits tracking will then be established** and will be **used to report to shareholders** on the ongoing performance of the integration programme.

Source: Deloitte analysis

Synergy planning should not be an ambiguous or directional ambition – to be meaningful **firms should focus on targeted synergies**. For example, a senior executive at an acquisitive wealth manager says in all the firm's acquisitions the synergy effort has focussed on three specific areas: "we have realised synergies in renegotiation of contracts (particularly with custodians), headcount savings, and dependent cost control in the target company such as the use of expensive subscriptions like market data terminals."

A key feature of the industry are asset servicers, to whom key activities are often outsourced, from fund administration and custody to technology. One of the key benefits is the ability to have a more flexible and variable cost base, but a heavily outsourced model can also be a barrier to the cost synergies that a transaction might deliver. Additional scale may help a commercial negotiation, but typically providers will offer a tiered rate card based on AUM levels.

More importantly, it was very clear in our research with both firm executives and outsource service providers that the outsource providers have a huge and critical role to play in the implementation of any integration. Therefore (subject to confidentiality), the earliest engagement with them in developing an integration plan and understanding the cost impacts (and, of course, the one-off costs they may charge to deliver the integration).

"Compliance synergies have often proved challenging, because teams often need to be upgraded following acquisitions, so the cost base rises. This is particularly the case with smaller organisations where there has been under-investment in compliance functions."

Wealth Manager

Conclusion

Every integration is different – not least because the operating model and culture of every investment and wealth manager vary, making combinations unique. Yet the conclusion we draw from our discussions with those operating in the sector and our own experience managing multiple integrations is that there are consistent and practical lessons that can be drawn from recent experiences.

We find the six common areas of concern that should be top of mind in all investment and wealth manager M&A projects are setting **strategic direction**, working towards **cultural fit**, systematising **integration management**, and **securing the talent base**, as well as planning for **technology integration** and setting and tracking realistic **synergy targets**.

These are the leading challenges. Our survey also suggests that there are solutions: identify issues and solicit key player buy-in early, plan integrations intensively to minimise disruption, expect technology costs and devise cost mitigations, and aim for consistency in the merged business.

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Integrating to add value in asset management M&A
This report from Casey Quirk explores areas of effective integration opportunities to help asset management firms unlock value through selective integration. This new white paper covers examples of effective integration opportunities.

https://www2.deloitte.com/us/en/pages/financial-services/articles/pmi-serial-acquisition-asset-management.html

Future of the Deal
Analysis of the key trends and shifting gears influencing global M&A markets.

https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/future-of-the-deal.html

2019 Investment Management Industry Outlook
The 2019 Investment Management Outlook from our US-based Center for Financial Services highlights three key ways to manage the challenges ahead as our market evolves: Choosing the right growth options, creating operational efficiencies, and delivering the next level of customer experience.

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Designed and produced by 368 at Deloitte. J18883