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# Merger Talks Off Between Pioneer Investments & Santander AM Asset Manager Now Subject to UniCredit's Strategic Review

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**Morningstar Inc.**

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**Executive Summary**

After weeks of rumours and leadership instability, UniCredit has announced today that it has decided with Banco Santander S.A. and Sherbrooke Acquisition Corp SPC to “terminate the agreements entered into on 11 November 2015 relating to the business combination of Pioneer Investments and Santander Asset Management.” The statement cites the “absence of any workable solution within a reasonable time horizon” to meet all regulatory requirements needed to complete the transactions, but fails to provide additional details on the reason behind the disruption to the deal.

**Next Steps**

Pioneer Investments’ fate is closely tied to UniCredit’s state of affairs. Over the last 12 months, the latter has been in the midst of a crisis, amid a difficult environment for financial institutions at a global, European, and especially Italian, level.

Indeed, UniCredit’s stock price has been under severe pressure, dropping more than 60% in the last year. Former CEO Federico Ghizzoni resigned in May. After a few weeks’ hiatus, Jean Pierre Mustier succeeded him effective July 12. As Morningstar Equity Analyst Stephen Ellis wrote in his June update, “UniCredit is one of the largest Italian banks and beset with many of the problems that plague the difficult system, including large amounts of nonperforming loans, an uncompetitive cost structure, and weak domestic loan growth prospects in an overbranched market.” (see also “Is the Italian Banking System Insolvent?”). In his very first days at the helm of the bank, Mustier sold 10% of UniCredit’s stake in Poland’s Bank Pekao SA and FinecoBank (two higher-growth holdings) to raise cash, and announced a group-wide strategic review. Pioneer Investments is now part of this review to “explore the best alternatives for all stakeholders, including a potential IPO”. Further details are expected to be announced before the end of the year.

**The Story So Far**

Throughout the months of merger talks, we haven't witnessed any team instability at Pioneer Investments linked to firm-wide issues. On the fixed income side, while former head of credit research Garrett Walsh left in September 2015, this was for personal reasons. The firm has hired new recruits into the investment teams, including a specialist in charge of credit spread duration bets, as well as additions to the European equity team. The firm has also continued to launch new strategies, even as the planned merger was pending regulatory approvals in the relevant jurisdictions.

In our note from 8 May 2015 (Pioneer Investments-Santander AM Deal: Morningstar's Take, by Francesco Paganelli and Javier Saenz De Cenzano), we anticipated a lengthy execution of the integration, which we viewed as “not easy to manage” as several critical decisions had to be taken. We reaffirmed our Neutral parent rating on account of a lack of clarity around key factors, such as the resulting fund range and investment teams’ assignments.

The agreement in April 2015 provided a general framework for the merged entity and defined key aspects such as ownership stakes, top management positions, Pioneer's US operations, the name of the new holdings, but left unaddressed numerous, highly relevant details.

From Pioneer's point of view at the time the merger was first announced, we saw a rationale from a scale perspective, with benefits on the commercial and distribution sides more prominent than the effect on its products or investment staff resources. The new entity would have been a truly global player, with scale, distribution and knowledge-sharing as the major positive outcomes of the integration.

It has been said that the complexity of the deal prevented its finalization, although if true this is somewhat surprising as its complexity was evident from the start. In our note of May 2015, we noted that "Both firms have a very wide fund range, with around 1,200 funds available for sale globally (according to Morningstar data), half of which are distributed in Europe."

#### **Our Take**

Our Neutral parent score on Pioneer Investments already discounted both positive and negative aspects of the firm on its own, coupled with the absence of major consequences from a potential merger in the short term and a general lack of visibility on the longer-term shape of the organization. We think this is still the case. At this point there are several options open to Pioneer but no clear direction that we can identify from the outside. While this change of heart and continued uncertainty might have negative repercussions on investment teams' stability, the collapse of the deal clarifies the picture somewhat, with no relocations, fund range overhaul and team mergers needed as a result of bringing two businesses together. We don't see cause for immediate concern, as the announcement switches a "known unknown" for another. If, however, an IPO goes forward, that could potentially prompt more pressure on short-term results and asset gathering and that, in our view, would be far from ideal from an investors' stewardship perspective. For now, we reaffirm our Neutral parent rating and we will continue to monitor the situation closely as it develops.

#### **Morningstar Analyst Ratings Unchanged**

We don't see any immediate implication for funds under coverage; we are not making any change to the Morningstar Analyst Ratings on any of Pioneer's funds at present. ■■

**Exhibit 1** Morningstar Analyst Rating for Pioneer Investments' Funds Domiciled in Europe

Name	Morningstar Analyst Rating	Morningstar Category
Pioneer Azionario Europa	Negative	Europe Large-Cap Blend Equity
Pioneer Fds Core European Equity	Neutral	Europe Large-Cap Blend Equity
Pioneer Fds Euro Aggregate Bond	Silver	EUR Diversified Bond
Pioneer Fds Euro Bond	Neutral	EUR Government Bond
Pioneer Fds Euro Corporate Bond	Neutral	EUR Corporate Bond
Pioneer Fds Euro High Yield	Neutral	EUR High Yield Bond
Pioneer Fds Euroland Equity	Silver	Eurozone Large-Cap Equity
Pioneer Fds European Potential	Bronze	Europe Mid-Cap Equity
Pioneer Fds European Research	Neutral	Europe Large-Cap Blend Equity
Pioneer Fds Gbl Aggregate Bond	Bronze	Global Bond
Pioneer Fds Global Ecology	Neutral	Sector Equity Ecology
Pioneer Fds Strategic Income	Bronze	USD Flexible Bond
Pioneer Fds Top European Players	Bronze	Europe Large-Cap Blend Equity
Pioneer Fds US Research	Neutral	US Large-Cap Blend Equity
Pioneer Obbl Euro a Distribuzione	Bronze	EUR Diversified Bond

Source: Morningstar Direct. Data as of 27/07/2016.

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