

March 2019

## Insurance Article

# The power of listening to clients and acting on their ideas

The importance of listening to clients and acting on their ideas cannot be overstated. This allows us to generate solutions that solve problems *they told us they have*, rather than the problems *we tell them, or think, they have*. This may seem all very obvious and no doubt straight out of Harvard MBA class 101. If it is, why does it appear many investment firms do not listen to clients, or act on their good ideas?

In this article, we give two real life examples of ASI investment solutions that have been created by listening to clients and their ideas. We go on to show how acting on those ideas can lead to strong products and solutions.

Both have demonstrated to be among the most innovative ASI solutions, while also solving client problems.

### Listening to Clients

Our clients tell us that investment firms, including ourselves, sometimes fill up client meetings with “experts”. They hand out long glossy presentation packs to use as the focal point of the meeting. Investment firms can be guilty of speaking at clients for most of the meeting. The firm’s representatives sometimes present slide packs overflowing with detailed slides and charts supporting their investment thesis. Among all this, little time is spent actually listening to those clients.

To facilitate listening, perhaps clients should follow Jeff Bezos’ practice at Amazon of not allowing presentation packs in meetings?

We have also observed that some investment firms approach product innovation by replicating whatever strategy is in vogue at that moment. This is rarely successful. By the time they come to market with their proposition, returns have been suppressed and those clients that want that exposure may already have it. This has happened in the market for certain types of private debt in recent times.

According to the Dalai Lama:

“When you talk, you are only repeating what you already know. But if you listen, you may learn something new.”

As a consequence, some investment firms may use up their clients’ precious time, while learning nothing new about their client, or their business.

Frank Bettger also adds that to be a welcomed visitor:

“I no longer worry about being a brilliant conversationalist. I simply try to be a good listener. I notice that people who do that are usually welcome wherever they go.”

### Clients’ ideas

Investment firms may not always appreciate that their institutional clients know a lot more about their own business and challenges than the investment firm is ever likely to know. As a consequence, the chance of an investment firm that does not constantly listen to its clients being able to create an innovative client solution is very small.

Clients will almost always have better and more profound ideas about their own business than investment firms. Without these good ideas, investment solutions created by investment firms can be generic and quickly commoditised.

We agree with author Earl Nightingale, who said that:

“Everything begins with an idea”

### Acting on Client ideas

Listening to clients and identifying their best ideas can be an ideal starting point. Investment firms can then use their investment expertise and operational capabilities to turn these ideas into tangible solutions. As we will see from our examples below, this is not always easy and can also take considerable time.

However, the prize for both client and the investment firm is very real. By offering a potential solution to a client's problem, the investment firm will most likely generate additional business from that client. They will also gain a market reputation for innovation.

**Benjamin Franklin summed it up as:**

**“Well done is better than well said.”**

Additionally, investors are looking to work with fewer managers, and to have stronger and deeper relationships with those managers. We believe the most successful investment firms will be the ones that create partnerships with their clients.

### Investing in Secondaries

ASI has strong relationships with a number of innovative institutional investors across the globe who have deep understandings of markets and who are truly forward thinkers. They do not accept the status quo and regularly question industry norms.

For example, one UK client was looking at listed private equity fund of funds. These were mainly UK structures listed as investment trusts. The client had done a study and noted that all the underlying funds within the investment trust traded at Net Asset Value (NAV), or at a premium to NAV. But the overall structure traded at a discount.

In other words, the structure in which the funds were held resulted in an artificial discount. This could not be justified economically and was at least in part caused by the relative illiquidity of the listed investment trust. The client wanted to deploy significant capital but could not acquire a significant position in these assets because of this illiquidity. The client asked ASI if we had seen other areas trade like this and was basically looking for:

- a. Assets that traded at an effective discount because of the structure in which they were held;
- b. Areas of private equity not covered by the main part of the market (ie non “flow” names) and;
- c. Any other areas where the client could realistically target a 20% gross IRR

Motivated by the client's insights, we discussed three areas:

- Secondaries (ie buying mature positions) in private equity fund of funds;
- Secondaries on very small buy-out funds, and;
- Smaller more complex secondary deals which the larger players could not afford to spend significant time on and so were under-researched.

Working closely with the client, we co-created a secondaries product investing in all three areas. The main conditions were that we did not charge fees on undrawn capital and had a higher-than-market preferred return (the return investors had to achieve before ASI participated in the profits of the strategy). Today, ASI has over 50 institutional clients around the world investing in the strategy.

**As a footnote, when the secondaries product was presented to other ASI personnel and clients the response was:**

**“Who thought this up....because we know it was not you?”**

Of course, ASI personnel and clients meant that because the structure was so unusual and so out of line with the way we normally structured our products, we could simply not have thought up all the innovative features by ourselves. This is a great example of listening and then acting on a client idea.

### Private Markets Fund Financing

At ASI, we have a strategic partnership with Europe's largest consolidator of closed book life insurance firms. We manage most of their assets.

In 2016, just after the implementation of Solvency II in Europe, the client approached us with an idea to help them solve a problem. They were not content with the very low returns they were earning on their liquidity and short duration funds. However, any solution would have to be Solvency II friendly. Simply dialing up market risk would result in higher capital requirements, which they had no appetite for.

Their idea was to find a way to access incremental illiquidity premiums available on shorter duration private market assets, private equities in particular. Their key objective was to deliver improved risk-adjusted returns for shareholders and policyholders.

Over a two-year period, a strategy was co-created that focused on providing investment grade, short-duration loans to private equity funds. These were provided in the early years of their life, when financing is most needed. Given the security on offer from diversified, institutional investor bases, in conjunction with the short-duration nature of the underlying loan tranches, we created a solution that is well suited to Solvency II capital requirements. It achieves the objective of capturing the illiquidity premia that private market assets can offer, without assuming undue credit risk.

The development of a bespoke credit risk rating methodology for private equities funds that meets Solvency II requirements and was accepted by regulators is no mean feat. This is a ground breaking strategy for the European insurance market, in a space traditionally dominated by banks.

We launched the strategy in June 2018 with the client transferring £500 million in from their liquidity and short duration funds. It is now also attracting widespread interest from other insurers. In February 2019, it won Insurance Asset Risk's award for "Investment Innovation of the Year".

### Conclusion

We have argued that listening and acting on client ideas is immensely powerful in the creation of new and truly innovative products. By doing so, both clients and investment firms can add value. To back this up, we have explained two ASI strategies that were co-created with clients by listening to them. These strategies are now among ASI's most successful.

We feel it is a great mistake not to listen to clients and to learn from their insights. At ASI, we try always to listen to clients and endeavour to follow the sound advice offered by the football philosopher Johan Cruyff:

**"Before I make a mistake, I don't make that mistake."**

Visit us online:

[aberdeenstandard.us](http://aberdeenstandard.us)

[aberdeenstandard.ca](http://aberdeenstandard.ca)

## IMPORTANT INFORMATION

**FOR INVESTMENT PROFESSIONAL USE ONLY. NOT FOR PUBLIC DISTRIBUTION.**

**Aberdeen Standard Investments is a brand of the investment businesses of Standard Life Aberdeen plc., its affiliates and subsidiaries.**

Alternative investments involve specific risks that may be greater than those associated with traditional investments; are not suitable for all clients; and intended for experienced and sophisticated investors who meet specific suitability requirements and are willing to bear the high economic risks of the investment. Investments of this type may engage in speculative investment practices; carry additional risk of loss, including possibility of partial or total loss of invested capital, due to the nature and volatility of the underlying investments; and are generally considered to be illiquid due to restrictive repurchase procedures. These investments may also involve different regulatory and reporting requirements, complex tax structures, and delays in distributing important tax information.

Among the risks presented by private equity investing are substantial commitment requirements, credit risk, lack of liquidity, fees associated with investing, lack of control over investments and or governance, investment risks, leverage and tax considerations. Private equity investments can also be affected by environmental conditions / events, political and economic developments, taxes and other government regulations.

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

**Important information for all audiences:** Aberdeen Standard Investments (ASI) offers a variety of products and services intended solely for investors from certain countries or regions. Your country of legal residence will determine the products or services that are available to you. Nothing in this document should be considered a solicitation or offering for sale of any investment product, service, or financial instrument to any person in any jurisdiction where such solicitation or offer would be unlawful.

The information contained herein is intended to be of general interest only and does not constitute legal or tax advice. ASI does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials. ASI reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Some of the information in this document may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations as he/ she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither ASI nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

**Notice to Investors in the United States:** In the United States, Aberdeen Standard Investments is the marketing name for the following affiliated, registered investment advisers: Aberdeen Standard Investments Inc., Aberdeen Asset Managers Ltd., Aberdeen Standard Investments Australia Ltd., Aberdeen Standard Investments (Asia) Ltd., Aberdeen Capital Management LLC, Aberdeen Standard Investments ETFs Advisors LLC and Standard Life Investments (Corporate Funds) Ltd.

**Notice to Investors in Canada:** Aberdeen Standard Investments ("ASI") is the marketing name in Canada for the following affiliated entities: Aberdeen Standard Investments Inc. and Aberdeen Standard Investments (Canada) Limited. Aberdeen Standard Investments (Canada) Limited, is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. Aberdeen Standard Investments Inc. is registered as a Portfolio Manager in the Canadian provinces of Ontario, New Brunswick, and Nova Scotia and as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. Both entities are indirect wholly owned subsidiaries of Standard Life Aberdeen PLC.

© 2019 This material is owned by Standard Life Aberdeen or one of its affiliates.

This material is the property of Standard Life Aberdeen and the content cannot be reproduced.

