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The power of listening to clients and acting on their ideas

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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 market-leading 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:

- Assets that traded at an effective discount because of the structure in which they were held;
- Areas of private equity not covered by the main part of the market (ie non “flow” names) and;
- 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 fund). 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 Phoenix Group, 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, Phoenix approached us with an idea to help them solve a problem. Phoenix was 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 dialling up market risk would result in higher capital requirements, which Phoenix had no appetite for.

Phoenix’s 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, Phoenix and ASI 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 Phoenix 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.”



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