Expert Investor Series

One Portfolio Approach: Investing with the whole objective in view



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At the recent PMI Pinnacle Awards, Brightwell won the award for Innovation in Investment Initiatives for our One Portfolio Approach, which has shaped the way we invest for more than five years. The recognition reflects a simple but important idea: investment decisions should be driven by the client's objectives for the whole portfolio, not constrained by conventional asset class boundaries.

Rather than starting with how much capital should sit in each asset class, we start with what the client wants to achieve and the role each investment can play in meeting those objectives. That may include generating growth or income, providing liquidity, or protecting against risk. Every investment is assessed according to the contribution it is expected to make to the client's overall objectives.

This changes the basis on which opportunities compete for capital. An opportunistic real estate investment, for example, may be labelled property while exhibiting risks and potential returns that are closer to bond-like investments.

Under the One Portfolio Approach, it can be considered alongside opportunities across public and private markets, rather than only against other property investments.

The approach also shapes our portfolio architecture, governance and team structure. A single investment team looks across the portfolio and assesses decisions against the client's objectives. This creates clearer accountability and allows return, risk, liquidity and implementation to be considered together.

This model is underpinned by a strong governance partnership with our clients' trustees. By setting clear objectives, agreeing the parameters within which the portfolio can be managed and delegating decisions appropriately, trustees enable the investment team to respond as circumstances and opportunities change.

Regular reporting and deep dive sessions provide trustees with clear oversight of the portfolio, the decisions being taken and the risks being managed, whilst shaping the strategic direction.

Where appropriate, this is complemented by safe room discussions with the sponsor (intermediated by Brightwell), creating a forum to explore the funding implications of any key decisions before they are taken.

Resilience under pressure

The benefits of an integrated approach become particularly clear during periods of market stress. During the 2022 LDI crisis, our view across the whole portfolio allowed us to identify and reallocate excess collateral quickly, helping to avoid forced asset sales. Decisions were made according to the liquidity requirements of the overall portfolio, so we could mobilise the most appropriate sources of collateral while seeking to preserve longer term value and maintain stability.

We have since broadened the collateral toolkit further, including using corporate bonds. This has increased the range of assets available to support collateral requirements in an environment where those requirements remain higher.

Making capital compete
The same principle applies when relative value changes or new opportunities arise.
A recent example involved the sale of a private infrastructure investment on the secondary market. The holding offered relatively modest prospective returns, while the secondary market provided an opportunity to exit at an attractive price.

Part of the proceeds was then committed to a mature private equity secondaries opportunity with higher expected returns and an attractive cash flow profile. The fund was already substantially invested, reducing blind pool risk and the early drag on returns commonly associated with new private equity funds. It also offered the client earlier distributions.
Importantly, this was implemented for one of our smaller clients, which was able to benefit from Brightwell's scale in private markets to access attractive opportunities that would typically only be available to much larger investors.

The decision was not simply to replace infrastructure with private equity. It was to compare the two investments directly on prospective return, risk, liquidity and cash flow. The infrastructure sale crystallised value and generated liquidity. The new investment offered more attractive forward returns, reduced implementation risk compared with a conventional new private equity commitment, and a shorter expected duration.

Under a traditional model, the sale and investment might have been treated as unrelated decisions within separate infrastructure and private equity allocations. Looking across the entire portfolio allowed capital to move to the opportunity expected to make the stronger contribution, while retaining additional liquidity for the scheme.

This illustrates a central feature of the One Portfolio Approach: capital is not owned by an asset class. It is owned by our clients and should be invested wherever it can most effectively deliver their objectives.

Looking beyond asset class labels
The approach also changes how we assess diversification.

Traditional asset class labels can give an incomplete picture of the risks within a portfolio. Companies such as Alphabet, Meta and Microsoft are significant constituents of global equity markets, increasingly important corporate bond issuers and major users of data centre infrastructure. Investments labelled equities, credit and infrastructure may therefore depend on some or all of the same underlying economic drivers.

Looking through those labels to the underlying exposures provides a better understanding of where diversification genuinely exists and where apparently different investments may be exposed to similar sources of risk.

The objective is not to diversify through increasing the number of asset classes, but to ensure that each investment adds something useful and distinct to the portfolio.

Particularly relevant for mature pension schemes
Investment flexibility becomes increasingly important as defined benefit pension schemes mature. As schemes pay benefits and portfolios reduce in size, liquidity requirements evolve, private market exposures run off at different speeds and cash flow generating portfolios are increasingly managed on a buy and maintain basis.

At the same time, attractive opportunities do not necessarily emerge in the proportions implied by a strategic asset allocation. Managing the assets as one portfolio allows these competing considerations to be assessed together as a scheme's circumstances change.

One portfolio, one objective
The One Portfolio Approach is more than a different way of categorising investments. It is an operating model for investment decision making that brings capital allocation, risk, liquidity and implementation together around the client's objectives.

Building this model requires aligned governance, an integrated investment team and a portfolio architecture that supports decisions across traditional boundaries. It also requires each investment to justify the role it plays in the portfolio, not simply its place within an asset class allocation.

Ultimately, One Portfolio is less about changing the labels attached to investments and more about changing how decisions are made. Every investment must contribute to the same overall objective, and capital can move when another opportunity is expected to perform that role better.



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