The Navigate Optimised Portfolios – six years of delivering on their objectives

The Navigate Optimised Portfolios were launched in March 2016, and in 2022, celebrate six years of delivering on their stated objectives. **Dean de Nysschen, senior research and investment analyst**, reminds investors what the Navigate Portfolios have to offer.

Investment philosophy

Our objective in managing the solutions is to provide diversified portfolios which maximise long-term risk-adjusted returns. Furthermore, the portfolios have the objective of delivering excess returns relative to the average of each portfolio's actively managed peer group. We achieve this by actively and carefully blending the best global managers for a particular risk mandate. This blend of leading managers is an output of our research process, while the portfolio construction process will ultimately be dictated by utilising our proprietary systems and applying qualitative insights as an additional risk management framework. The output reflects the combined effort of the Navigate investment committee, which includes members from the Glacier Research, Consulting and Glacier International teams.

Portfolio mandates

The Navigate offering is available in GBP and USD, and includes Cautious, Moderate and Aggressive portfolios. We use our own proprietary quantitative tools as part of our process for sourcing ideas, evaluating performance and finally determining the overall portfolio construction. An optimisation process allows us to appropriately utilise funds from across the risk spectrum in all of our solutions, based on the most complementary relationships between funds.

Optimisation tool inputs

In order to manage required outcomes, one of the inputs we use is time horizon management. For example, a cautious portfolio would likely have a higher allocation to shorter-term risk and performance metrics, whereas a more aggressive portfolio would look towards longer-term results and take much less cognisance of risk. Applying a portfolio overlap constraint further ensures consistency and that we don't make too many, or sudden changes in the underlying holdings.

How the optimisation tool works

Utilising the optimisation tool assists in systematically eliminating funds where the risk per unit of return is deemed to be too high for the specific mandate. This contributes to providing improved asymmetrical returns and drawdown protection, whilst not compromising on the longer-term capital growth targets. In cases where additional extra risk may be justified by the extra potential return (specifically in the case of the more aggressive portfolios), we will look at including a particular fund.

Traditional multi-asset portfolios

A traditional cautious portfolio would be predominantly made up of only cautious funds. The Optimised portfolios differ from this in that we may also include smaller strategic allocations to appropriate equity or moderate funds– provided that the overall allocation remains in line with the mandate, and that the addition of these holdings will introduce portfolio construction benefits. Having the ability to extend our universe of potential holdings across the risk spectrum should theoretically lead to improved client outcomes and more robust portfolios.

Crucially, there is a strong emphasis placed on the qualitative management overlay when constructing portfolios. Portfolios are certainly not built by blindly implementing recommendations from the optimisation software. Rather, the committee considers factors such as macroeconomic conditions and trading history, and also apply research insights to specific holdings. Portfolios are also intentionally diversified by style as part of the qualitative overlay, to ensure there's no unintended style bias.

Performance

All six Portfolios (Cautious, Moderate and Aggressive – in both GBP and USD categories) have consistently outperformed their category average over the period since inception. While drawdowns have, at times, been lower than the category average, for the most part these have been in line with their respective category average drawdowns. Occasional drawdowns are primarily due to higher average equity allocation of the Optimised Portfolios relative to their peers. We believe that equity should outperform over the longer term, and consequently the portfolios should continue to include appropriate equity exposure where the risk-adjusted returns on offer make sense and align with the objectives of each particular mandate.

What does the future hold?

Going forward, we anticipate a more challenging investment landscape. The combination of changing monetary regimes, leveraged sovereign balance sheets and pronounced geopolitical uncertainty all contribute to an environment in which prudent and active capital allocation will be key. While future returns may be more challenging to come by than in recent years, we believe investors should stick to a long-term investment philosophy and process and utilise solutions that provide exposure to a superior combination of actively managed global strategies, with the ability to allocate across multiple asset classes and thereby source robust risk-adjusted returns. Similarly, we continue to keep our promise to provide solutions underpinned by a consistent, repeatable and coherent philosophy and process.