Deloitte.

Enhanced Portfolio Management in uncertain times

How businesses can generate and protect value through enhanced, risk-return techniques – improving portfolio and capital allocation decisions

Contents

Executive summary

Where to get best bang for your buck? Allocating finite capital resources across a portfolio of business units, projects or investment opportunities is one of the most challenging tasks facing business leaders. Furthermore, in today's 'new normal' operating environment of heightened volatility and uncertainty, any incremental advantage to improve such decisions is like gold-dust.

Enhanced portfolio management approaches (based on risk-return techniques) can provide the bolt-on to the existing decision-making process to help answer the tough questions, such as:

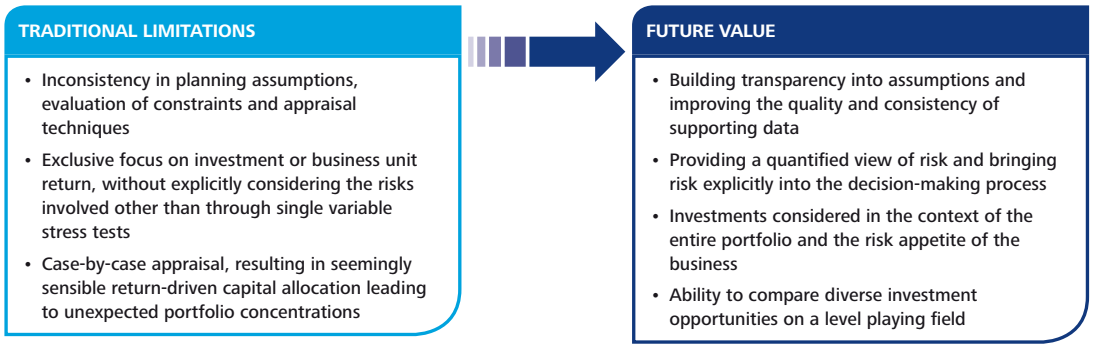
- **Where should we prioritise capital spend in order to deliver maximum return for acceptable risk?**
- **Where should we allocate capital within my business in order to support the company's strategic objectives?**
- **How do we develop a balanced portfolio that not only maximises return, but also operates within my risk appetite boundaries?**
- **How do we ensure that capital allocation decisions are supported by the best possible analytics and insight on both risk and return?**

In this short paper, we explore the imperative and approach to enhance the traditional method for allocating capital – to help navigate a more volatile environment, to improve the transparency and communication with stakeholders, and to ultimately make more robust decisions.

What's the challenge?

Traditional approaches to capital allocation often leave substantial value 'on the table'. This can be remedied by the use of risk-adjusted approaches:

Figure 1. Realising future value through enhanced corporate portfolio management

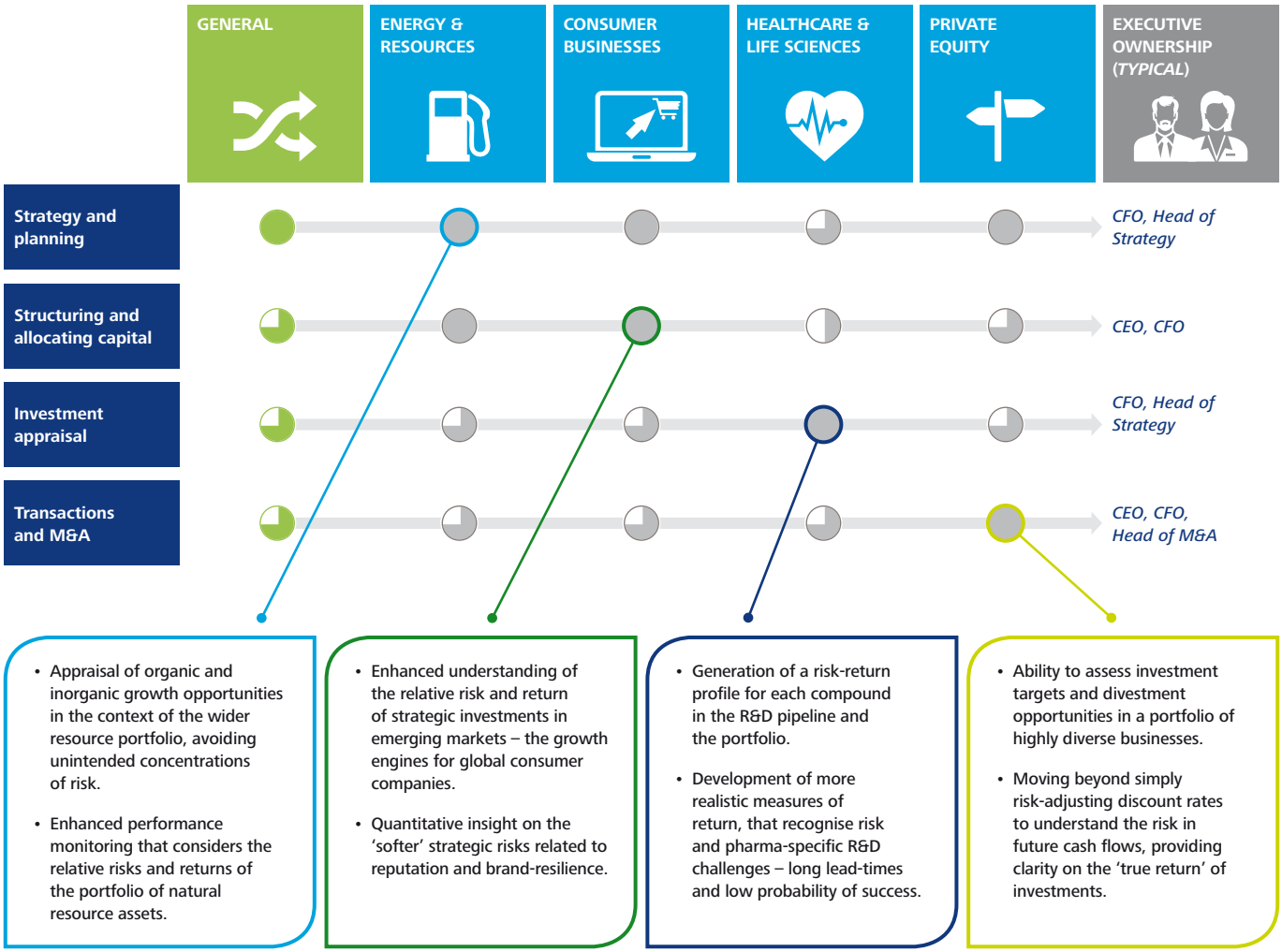


The sum of the parts in a business, the portfolio, brings together overlapping returns and inter-related risks, the net position is generally different from the gross (simple-sum) position

Which industries tend to adopt this?

When thinking of leading practices in managing a portfolio of diverse assets or businesses, the financial services industry (FS) immediately comes to mind. The risk-adjusted portfolio management technique leverages some of the approaches utilised in FS, whilst building on these further to reflect the unique characteristics of corporates. The application of these techniques to a corporate environment can deliver value across a range of business functions and ultimately enhance the risk-adjusted return delivered from capital spend:

Figure 2. Industry applications of enhanced corporate portfolio management techniques

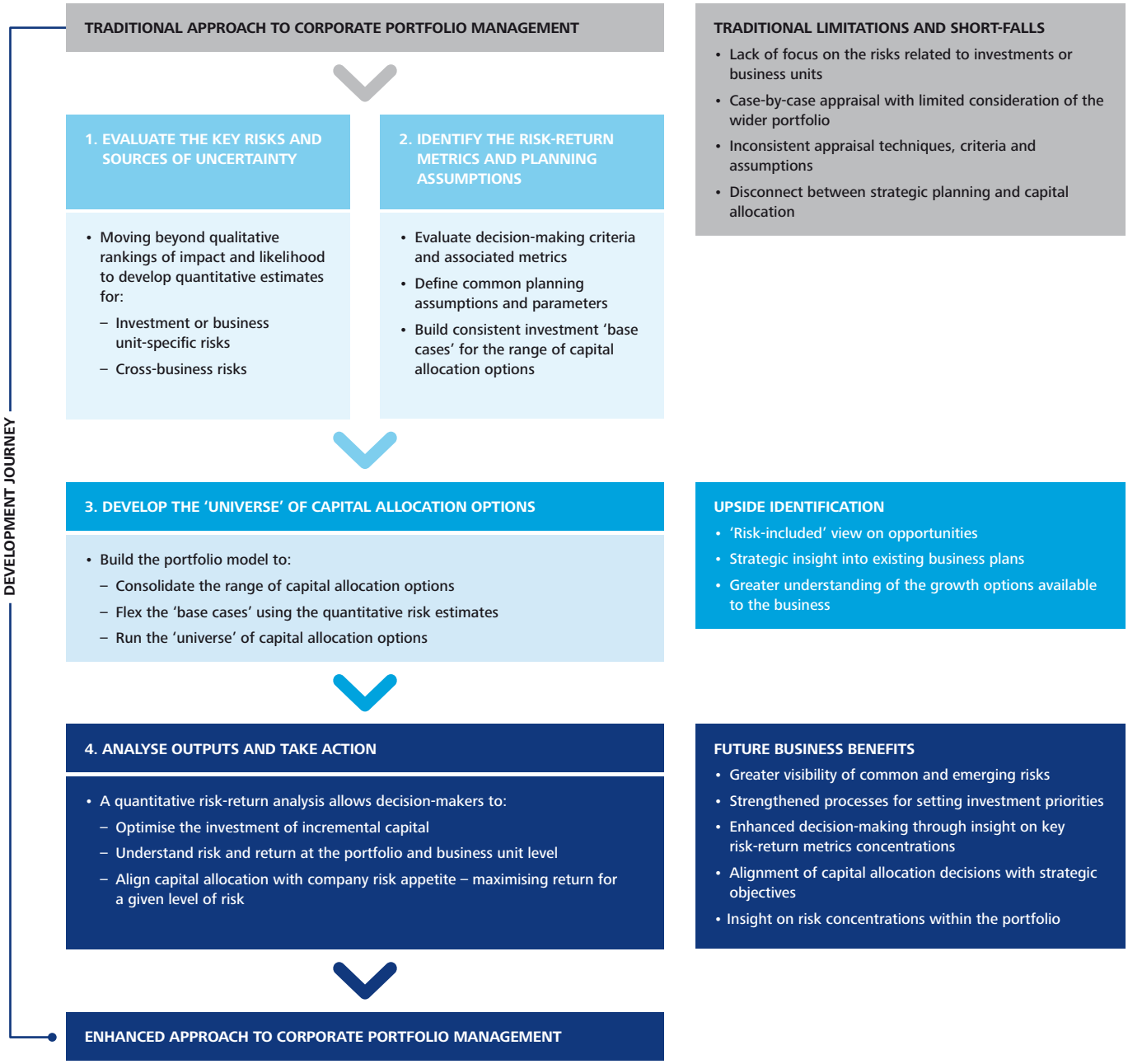


Application of enhanced risk-return approaches differ across industries

How does it work? – the process steps

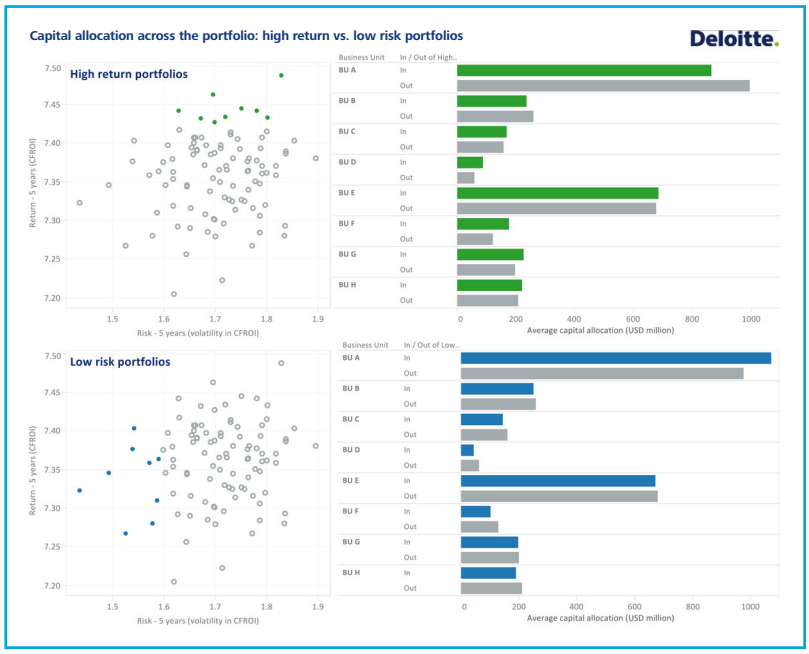
Making business-critical capital allocation decisions is never a straight-forward process. However, by adding pragmatic bolt-on techniques to existing processes, the outputs can deliver more insight. We have developed a proven set of steps which can help cut through this complexity and deliver increased value:

Figure 3. Developing the capability to deliver enhanced corporate portfolio management



Example applications

Figure 4a. The Deloitte portfolio management 'accelerator'

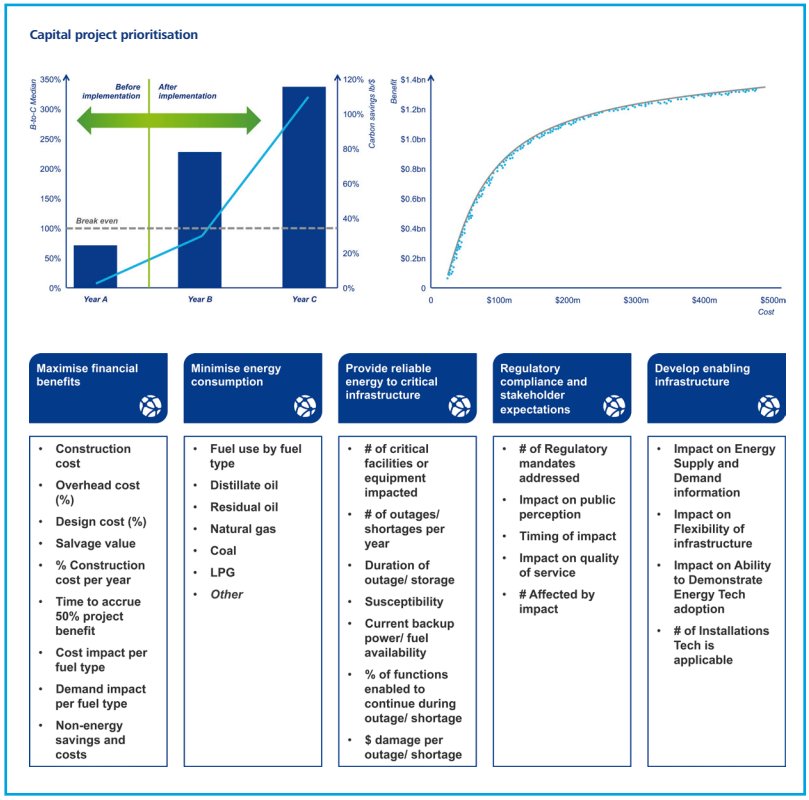


The Deloitte accelerator

Deloitte has developed a portfolio management 'accelerator' that enables companies to run complex analysis simply by 'bolting-on' the capabilities.

The 'universe' of options will encompass the full range of potential portfolio capital allocation options, allowing companies to identify those options that maximise return for their desired level of risk.

Figure 4b. Case study



Case study

US Federal government agency reviewed its capital project prioritisation against multiple strategic objectives

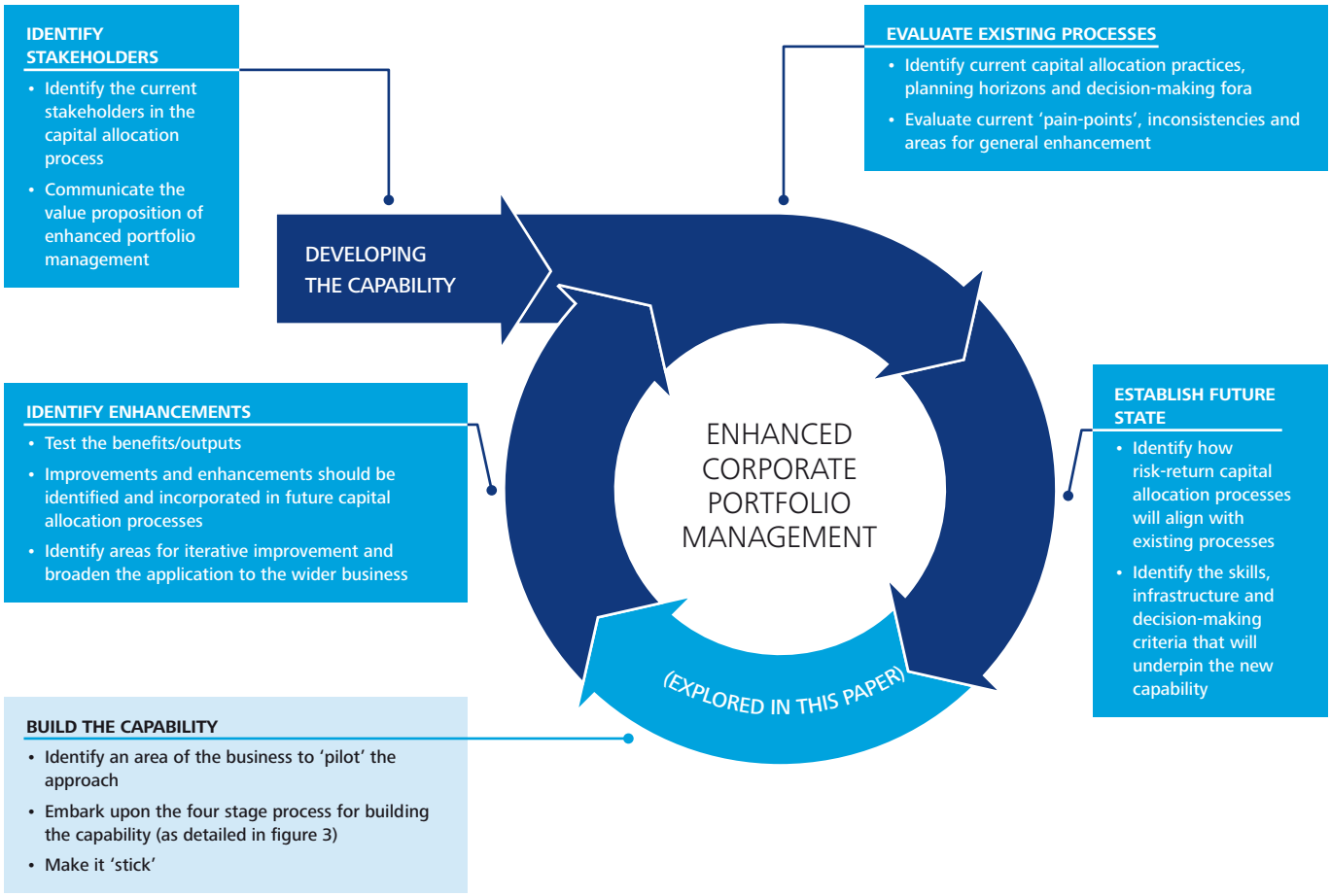
A US federal agency, facing constrained resources, needed to prioritise capital projects against multiple competing objectives, such as achieving significant cost savings, lower carbon emission targets, and enhanced energy reliability for mission-critical assets, among others.

An advanced approach was used for prioritising a portfolio of hundreds of diverse capital project requests in a manner that accounts for strategic trade-offs.

Through better optimisation tools, plus training and improved process alignment, they captured over $200 million in additional value in the first year, including more than $150 million in new cost savings, plus increased carbon savings for proposed projects.

Where do you start and what are the benefits?

Figure 5. Enhanced portfolio management development cycle



Delivering value across the organisation

In summary, a risk-return based approach to portfolio management can deliver value across the organisation, both from a return enhancement and a risk management perspective:

- Consistent appraisal and transparent evaluation of capital investments, allowing project/investment ranking and analysis.
- Enhanced decision-making on capital allocation through tangible and achievable risk-return metrics.
- Identification of opportunities to capture growth and upside potential across the portfolio.
- Improved understanding of risk interdependencies and the potential for unwanted risk concentrations.

Successful companies that have implemented these approaches typically start with a pilot or proof-of concept in a specific part of the business, before extending to the wider corporate portfolio. This allows for iterative improvements in the approach and helps generate momentum and business buy-in for the new capabilities.

We believe there is an imperative for corporate leaders to consider how these approaches could support the delivery of stronger shareholder returns, could aid the decision-making process in the application of capital, and could help improve the company's management of risk and uncertainty.

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