What is Total Portfolio Approach?
A Practitioner Summary

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The way institutional investors approach portfolio construction is undergoing a quiet, yet profound shift. For decades, Strategic Asset Allocation (SAA) has served as the dominant framework—providing structure, discipline, and a shared language across investment teams, boards, and stakeholders. But as portfolios have grown more complex, and as macroeconomic and geopolitical regimes have become less stable and more difficult to predict, the limitations of fixed-weight SAA frameworks have become more apparent.

In this environment, the investment community has increasingly turned its attention to the Total Portfolio Approach (TPA)**.** While TPA is not new—it has been practiced in various forms by leading funds in Canada, Australia, and parts of the endowment world for years—it remains an evolving concept. Definitions vary, implementations differ, and despite the growing interest, many investors still struggle to grasp what TPA actually entails beyond the label.

In our recent paper, *"Total Portfolio Approach"*, published in *The Journal of Portfolio Management*, we aim to bring clarity and structure to the TPA discussion.[3] Our goal is to articulate more precisely what it means to us in practice, how it differs from SAA, and what it takes to implement successfully. The full paper provides a detailed account of the **historical foundations of SAA**, the **assumptions that underpin it**, and the **forces—both internal and external—**that are driving interest in TPA today. It also briefly explores the institutional enablers, governance structures**,** and analytical tools needed to move from theory to execution.

This summary is not a substitute for that full discussion. Instead, it is intended as a mid-length practitioner's digest—highlighting the main ideas, framing the conceptual shift from SAA to a more general paradigm "TPA", and offering a reflection on what this evolution means for long-term investors navigating increasingly dynamic conditions.

THE ENDURING APPEAL—AND GROWING LIMITS—OF STRATEGIC ASSET ALLOCATION

For decades, Strategic Asset Allocation has served as the intellectual and operational cornerstone of institutional portfolio design. Rooted in the theoretical foundations of Modern Portfolio Theory and Capital Market Equilibrium Models, SAA formalized how investors should think about the long-run trade-off between risk and return. The approach provided a roadmap: define the institution's objectives, derive long-term expected returns and volatilities for each asset class, estimate cross-asset correlations, and then solve for an optimal mix—subject to constraints. Once implemented, the portfolio would be periodically rebalanced to stay in line with policy weights.

SAA's appeal was not just in its quantitative rigor, but in its institutional utility**.** It offered clarity to boards, and accountability for performance evaluation. In many ways, SAA provided the architecture around which governance models, organizational structures, and consultant relationships were built.

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[3] https://www.pm-research.com/content/iijpormgmt/early/2025/05/22/jpm202517281

This structure continues to serve many investors well. For institutions with stable capital inflows**,** limited use of leverage, modest exposure to illiquid assets and a set of beliefs on markets dynamics**,** a long-term, rule-based allocation model provides a powerful combination of discipline and simplicity. SAA reduces the temptation for short-term market timing, helps align teams to a strategic plan, and provides a benchmark for manager performance. It remains especially useful in settings where maintaining political or operational consensus is as important as generating alpha.

But SAA is also underpinned by a set of **implicit assumptions**—assumptions that are becoming harder to sustain in the current investment environment. Among them:

- That **risk premia are stable** and can be forecast reliably over long horizons;
- That **asset class correlations** remain roughly stationary;
- That **rebalancing is always feasible**, regardless of liquidity or external capital pressures;
- That **asset classes can be treated independently**, and can be managed within discrete silos;
- And that **market behavior is mean-reverting**, making historical data a sufficient guide for the future.

These assumptions, while defensible in theory under certain conditions or particularly in historically stable regimes, have proven fragile in practice. Over the past two decades, we've seen a series of systemic events—the Global Financial Crisis, years of unconventional monetary policy, the COVID-19 pandemic, the 2022 inflation spike and interest rate reset, and ongoing geopolitical fragmentation—that have upended long-standing patterns in asset behavior. During these episodes, institutions operating under rigid allocation frameworks often found themselves unable to respond effectively. Rebalancing was constrained not by intent, but by liquidity or capital limitations. Risk models calibrated to historical relationships failed to capture structural breaks. Diversification benefits evaporated just when they were needed most. And capital allocated under long-term policy weights clashed with short-term solvency or opportunity demands.

Moreover, SAA has struggled to keep pace with the growing presence of illiquid private markets. As private equity, real estate, and infrastructure have expanded their share of institutional portfolios, the challenge of maintaining fixed weights has intensified. Illiquid assets do not mark to market, do not rebalance easily, and often follow investment schedules disconnected from public market conditions. This introduces path dependency, where decisions made years ago constrain the ability to adapt today.

The challenge is not that SAA is wrong—it's that it was designed for a different world. A world of simpler portfolios, more stable regimes, and lower cross-asset complexity. In today's context, where portfolios are exposed to time-varying risks, liquidity frictions, and shifting macroeconomic conditions, the assumptions underlying SAA can become constraints rather than safeguards. None of this invalidates the role that SAA can still play. For some institutions, particularly those with stable mandates, limited illiquidity, and long planning horizons, a disciplined SAA framework may remain the most appropriate choice. But that determination should come ***only after revisiting the implicit assumptions behind SAA****—such as static risk premia, mean-reverting markets, and consistent rebalancing capacity—and deciding that they continue to hold in the institution's specific context. For those where those assumptions no longer apply, the question becomes: Is*

there a more coherent and flexible way to manage the portfolio under real-world constraints? This is the environment in which the Total Portfolio Approach has gained momentum—and why a clearer definition of what TPA entails, and how it can be implemented thoughtfully, is more relevant than ever.

WHY TPA? A COHERENT RESPONSE TO INSTITUTIONAL COMPLEXITY

The increased attention around the Total Portfolio Approach is not a passing trend—it is a direct response to the evolving realities facing institutional investors. As portfolios have grown more diversified, structurally constrained, and exposed to nonlinear risks, many organizations are rethinking the frameworks that guide their investment decisions. TPA has emerged not as a theoretical innovation, but as a practical orientation toward managing portfolios holistically in the face of that complexity.

What distinguishes TPA is not a single set of rules, **but a shift in mindset**. It encourages institutions to move beyond rigid allocation policies and toward a more integrated view of the portfolio as a living balance sheet—one where every investment decision is evaluated in terms of its marginal impact on total fund risk, liquidity, return, and flexibility. Instead of operating in asset class silos, investment teams collaborate around shared objectives, adapting the portfolio as opportunity sets, constraints, and macroeconomic conditions evolve.

Several structural trends are accelerating this shift:

Rising Portfolio Complexity. Modern institutional portfolios include illiquid private markets, overlays, completion strategies, and bespoke mandates—all layered onto legacy frameworks designed for public equity and bonds. As allocations to infrastructure, private equity, and structured credit have grown, so too have the liquidity mismatches they introduce. These exposures don't rebalance easily. They can't be managed in isolation. And they often operate on timelines that are misaligned with public markets. The cumulative result is that traditional policy weights no longer map neatly to real-world capital—making static allocation frameworks increasingly difficult to execute with coherence.

Greater Market Instability and Macro Regime Shifts. The macroeconomic environment has also become more turbulent and less mean-reverting. From the breakdown of stock-bond diversification during quantitative easing to the inflation shocks and rate hikes of 2022–2023, institutions are facing a world where risk premia are conditional, correlations can be unstable, and scenario-dependent behavior matters more than long-term averages. In this context, relying on fixed capital market assumptions and backward-looking data can lead to blind spots. Institutions need the capacity to position portfolios according to regime-aware views, not just historical relationships.

Maturation of Tools and Infrastructure. Until recently, many institutions lacked the infrastructure needed to manage a total portfolio dynamically. But that is changing. Today's investment offices have access to forward-looking risk engines**,** liquidity forecasting models**,** macro scenario libraries**,** and factor-based construction tools that were either unavailable or immature just a decade ago. These tools now allow investment teams to monitor cross-portfolio

exposures, simulate regime-specific risks, and integrate both public and private assets under a common framework. The technical barriers to implementing TPA have come down—and many of the world's most sophisticated asset owners are putting these capabilities into practice.

Taken together, these trends make clear why TPA is no longer viewed as aspirational. It is increasingly being adopted as a necessary evolution for institutions whose portfolios no longer fit within the assumptions that underpinned traditional SAA models. Crucially, TPA does not reject discipline—it redefines it. It replaces static precision with strategic adaptability, siloed mandates with coordinated positioning, and long-horizon averages with dynamic scenario planning. For institutions that operate across asset types, time horizons, and liquidity regimes, it offers a way to manage the whole portfolio with coherence—aligning implementation with beliefs on markets, fund constraints, and investment changing opportunities. That is why TPA is gaining momentum—not as a new fad, but as a reflection of where the institutional investment landscape has already moved.

WHAT IS THE TOTAL PORTFOLIO APPROACH?

The Total Portfolio Approach is not a rigid investment model, **but a mindset**—one that emphasizes adaptability, integration, and total fund outcomes over siloed asset class optimization. It reframes the role of portfolio management from maintaining fixed allocations to continuously managing exposures in light of changing opportunities, constraints, and institutional objectives.

At its core, TPA treats the portfolio as a single, unified balance sheet. Each investment decision is assessed based on its marginal contribution to the total portfolio—not just in terms of return and volatility, but also liquidity, intertemporal flexibility, economic exposures, and alignment with long-term purpose.

This approach breaks down traditional silos and encourages coordination across the entire investment organization. It involves:

- **Managing public and private markets together**, rather than in parallel, so that exposures, pacing, and rebalancing are handled coherently;
- **Designing liquid portfolios not as passive beta sleeves**, but as **buffers**—dynamic components that can absorb shocks, preserve flexibility, and complement the slower-moving private side of the portfolio.

TPA also embeds **intertemporal hedging**: the idea that today's decisions should preserve the portfolio's ability to respond effectively in future states of the world. This includes adjusting to macroeconomic regime shifts, evolving capital needs, or unexpected market dislocations. While the portfolio is not continuously reoptimized, it is monitored and conditionally adjusted—with governance structures, tools, and processes enabling dynamic positioning where needed.

In essence, TPA is about managing the full portfolio deliberately and cohesively—across asset types, time horizons, and market environments. It is a framework for navigating complexity with greater clarity, especially for institutions with growing allocations to illiquids, tighter liquidity constraints, or a desire to better align exposures with strategic intent.

WHAT IT TAKES TO IMPLEMENT TPA

While the Total Portfolio Approach offers a compelling framework for navigating portfolio complexity, successful implementation requires more than just adopting new language or adjusting policy weights**.** In our full-length paper, we argue that bringing TPA to life depends on aligning four critical institutional pillars—framed around the questions: **Should**, **Could**, **Would**, and **How**. Without this alignment, TPA risks becoming a concept in name only, rather than a practice embedded in daily decision-making.

Should we adopt TPA? This is fundamentally a question of **investment belief**. Institutions must share a worldview in which risk premia are time-varying**,** liquidity matters**,** and markets move through shifting regimes—rather than reverting neatly to historical norms. TPA only makes sense for organizations that believe adaptability, judgment, and forward-looking positioning are essential to managing long-term capital effectively. Without this philosophical foundation, efforts to implement TPA will lack internal conviction.

Could we adopt TPA? This depends on **governance structure**. TPA requires boards and investment committees to shift from managing asset class targets to empowering dynamic execution within clearly defined guardrails. That means establishing guardrails on total portfolio risk, liquidity exposure, and economic factor sensitivities—while giving management the discretion to act within those parameters. Importantly, oversight must move from micromanaging allocations to monitoring outcomes and ensuring decision rights are exercised with discipline and alignment.

Would we adopt TPA? Culture is often the hidden lever in investment management. Even with the right beliefs and structures, TPA cannot function if the institutional culture reinforces siloed thinking or benchmark-driven incentives. Organizations must foster collaboration across teams**,** reward total fund outcomes rather than isolated mandate performance, and support decision-making that balances conviction with flexibility. Without cultural alignment, teams may resist integration, defer to status quo processes, or default to narrow performance metrics.

How would we implement TPA? Finally, TPA requires a **robust toolkit** to translate beliefs into action. This includes having a portfolio-wide view of factor exposures, liquidity needs, macroeconomic scenarios, and interdependencies between public and private assets. It means deploying systems that support dynamic risk modeling, scenario-based portfolio construction, and real-time tracking of exposures and constraints. Tools must be not only technically sound, but integrated across functions—enabling consistent views across investment, risk, and governance teams.

GOVERNANCE REIMAGINED

Governance under the TPA is not about relaxing oversight—**it's about reframing it**. Rather than anchoring control in fixed asset class allocations, as is common under SAA, TPA shifts governance toward setting principled boundaries (or bands) that enable dynamic execution while preserving strategic intent.

Instead of enforcing strict, static weights, boards establish asset class ranges, along with limits on total portfolio risk, liquidity exposure, and illiquidity pacing. These ranges provide clarity on the institution's tolerance for risk and concentration while giving investment teams room to make integrated decisions in response to evolving market conditions and internal constraints. This governance model reduces unnecessary bottlenecks while maintaining robust accountability. It allows boards to focus their energy on the most important levers: aligning investment decisions with institutional beliefs, defining strategic priorities, and monitoring total portfolio outcomes—rather than reviewing individual allocation moves, or second-guessing near-term tilts.

Performance evaluation under TPA centers on total fund outcomes, but it also extends to evaluating how effectively the fund operates as a cohesive, collaborative organization. The goal is not only to measure investment outcomes, but to assess how well teams work together across mandates to generate value for the whole portfolio—minimizing duplication, aligning decisions, and reinforcing shared accountability.

In short, governance under TPA is not about letting go of control—it's about exercising control through structure and intent, not rigidity. By replacing fixed targets with well-defined ranges and outcome-based oversight, institutions can support more adaptive decision-making while maintaining clarity, discipline, and alignment at the highest level.

A MODERN TOOLKIT FOR TPA

Implementing the Total Portfolio Approach in practice requires more than a philosophical shift—it demands a toolkit that enables **adaptive, integrated, and forward-looking portfolio management**. In our work, we've identified and developed a range of tools that support this goal, drawing on both theoretical insights and hands-on experience with institutional portfolios.

Broadly, the toolkit falls into two categories: **market monitoring** and **portfolio construction**.

Market monitoring tools are used to assess the absolute and relative attractiveness of asset classes, helping institutions position portfolios in anticipation of shifting conditions. These tools align with intertemporal hedging principles by focusing on regime-aware, forward-looking assessments rather than static return forecasts.

The second category—**portfolio construction tools**—is where much of our original contribution lies. Over the past several years, our research team has explored various aspects of portfolio construction techniques well suited to the TPA, with results published across academic journals and book chapters. These include methods for building robust portfolios using macroeconomic factors, as well as frameworks for shifting allocations based on prevailing economic regimes—an approach we believe offers greater intuition and relevance for Chief Investment Officers and total fund decision-makers.

We have extended our factor-based methodology to address how institutions can rebalance portfolios in the presence of private market exposures while maintaining desired portfolio-level factor exposures. We have also emphasized the strategic role of balance sheet management—not just for capital allocation, but as a key enabler of liquidity management and long-term flexibility.

On the risk side, our work highlights the potential misalignment between risk models and portfolio construction tools, and we offer solutions to better synchronize these systems, enabling a more holistic and consistent view of risk.

A critical element of managing portfolios with both public and private assets is having tools to support liquidity forecasting, capital call modeling, and balance sheet simulation. These allow investors to quantify the opportunity cost of illiquidity, make informed pacing decisions, and ensure that the liquid book is structured to support—not merely sit alongside—the long-term private asset strategy.

Over time, our experience has also shaped how we approach **portfolio optimization in practice**, regardless of the specific tools used. While traditional mean-variance optimization can be unstable when applied across many assets, we have found that using it in reverse offers a more robust and intuitive path. Rather than starting with return and risk assumptions, we begin with a "guess" portfolio, derive the implied expected returns via reverse optimization, and then assess whether those returns align with institutional views. This iterative process, particularly when embedded in a factor-based framework, helps ensure consistency between beliefs and positioning. It also reflects the reality that multiple portfolio configurations can deliver similar trade-offs between expected return and risk—providing flexibility without compromising on discipline.

CONCLUSION: TPA AS A MINDSET FOR PREPARED, PURPOSEFUL INVESTING

The growing interest in the Total Portfolio Approach reflects a simple but important shift: investment frameworks must evolve as markets, constraints, and opportunities change. While Strategic Asset Allocation offered clarity in more stable times, its fixed allocation structure can fall short in today's more dynamic and interconnected world.

TPA is not a rigid model—it's a mindset. It encourages institutions to manage the portfolio as a whole, respond thoughtfully to changing conditions, and build flexibility into how capital is allocated and monitored. It emphasizes conditional decision-making, forward-looking design, and alignment across investment beliefs, tools, and governance. Adopting TPA doesn't require abandoning past practices. For some, it may serve as a foundation; for others, a source of practical enhancements. In both cases, success depends on internal coherence and the ability to act cohesively under uncertainty.

Ultimately, **TPA is less about perfect planning and more about purposeful readiness**—the ability to adapt with clarity, discipline, and intent when the world doesn't follow the script.