

Chief Investment Officers: **Start Here**

Five Enduring Lessons From 25 Years of Institutional Investing

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Over 25 years building Partners Capital into a \$65 billion global OCIO, I had a front-row seat to over a thousand investment committee meetings. Around those tables sat some of the world's most sophisticated investment committees representing endowments, foundations, family offices, pensions, and sovereign wealth funds—each bringing a wealth of experience and deep intellect, all politely competing for insights.

Over thousands of hours listening and engaging, I noticed something consistent: some debates never die, even though they no longer deserve the time of serious CIOs.

There are five such debates that, in my view, should be largely settled.

If you are a CIO, start here.



1. If you dismiss Mean-Variance Optimization, please supply an alternative

Mean-variance optimization (MVO), as the primary institutional investor's asset allocation tool, is often dismissed for the uncertainty of its inputs which requires forecasting asset class returns, volatility and cross-correlations out 10 years into the future. These are tough to forecast accurately.

But **what is the alternative?** The alternative is intuition dressed as insight.

Every strategic asset allocation is, explicitly or implicitly, a function of expected returns, risks, and correlations. MVO simply makes those assumptions explicit.

Yes, the raw output can be impractical—even absurd. That is precisely why it is a starting point, not a destination. The discipline lies in:

- stress-testing assumptions
- triangulating scenarios
- applying judgment

Even the most celebrated portfolios—Yale included—are grounded in forward-looking expectations. We may not know the future with certainty, but we have no choice but to form views about it.

MVO is not the answer. It is the only credible place to begin.

2. The “Total Portfolio Approach (TPA) vs. Endowment Model” is a false dichotomy

The industry continues to frame a false dichotomy: **top-down strategic asset allocation (endowment model) vs. bottom-up capital deployment (TPA)**. The dichotomy is also often framed as decision-making optimising across the overall portfolio (TPA) vs. within asset class buckets (endowment model). In practice, endowment model practitioners rarely make decisions purely within asset classes but rather operate along a spectrum between the two extremes. As CIOs lean away from tight adherence to long-term asset class allocation targets in the direction of more manager focused TPA, there is a temptation to “blow up the asset class silos.” The real risk is not philosophical—it is organizational.

One resulting decision is to restructure the investment team to be populated by generalist or cross-asset class analysts and to abandon asset class specialists. This is a mistake. Manager selection is extraordinarily difficult even with specialists. Without them, it becomes close to impossible.

Consider the learning feedback loop: You often need **5–15 years** to know if a manager selection was truly successful and by then, the context has changed. Allocators are forced to make decisions based on the present because of this feedback constraint -- on the basis of what investment strategy and asset manager skill set should work best based on deep insights into the market structure of the asset class today.

In that environment, depth of expertise and continuity of asset class focused GP relationships matter more than the objectivity of the advocate. It is the CIO’s job to make the cross-asset class trade-offs. Abandoning specialisation just when AI tools are enabling ever deeper asset class insights is poor timing to say the least.

Well executed SAA operates with boundaries that accommodate cross-asset class decisions, informed by increasingly deep insights into the asset class and manager from asset class specialists.

Deep asset class expertise is required for overall portfolio optimisation. Without it, cross asset class trade-offs are made in the dark.

3. The most significant alpha is earned by working our way down the risk curve

The most significant and reliable source of outperformance comes from **reducing the risk embedded in the income of any given asset**. The highest-returning strategies in institutional portfolios share a common pattern:

- acquire high risk assets
- actively reduce that risk over time
- exit when income streams are robust the asset is “safe”

This is the essence of venture capital, buyouts, opportunistic real estate, and value-added infrastructure.

Alpha comes from participating in the compression of required returns as assets mature through active asset management. We **buy uncertain cash flows at a 15–20% cost of capital and convert them into stable streams valued at 6–8%**. The valuation change from cost-of-capital compression defines the highest returning asset classes.

These opportunities are found in the highest risk asset classes as there is no guarantee that any given asset will move down the risk curve. An institutional investor’s manager due diligence focus should be on assessing their ability to both reduce and mitigate risk, and—in the case of traded securities—to identify where the market has overstated the true risk.

4. Don’t be fooled by beta wearing alpha’s clothes

Across asset classes—but especially in public equities—apparent outperformance is overwhelmingly explained by **hidden risk exposures**. The data is sobering:

- Roughly 80% of active US equity managers underperform their benchmarks (SPIVA)
- Of the remaining 20%, a large portion are simply taking more risk—intentionally or otherwise

Once you adjust for market beta and factor exposures (value, growth, momentum, etc.) the proportion of managers delivering true alpha collapses—often to **low single digits** over meaningful time horizons.

At Partners Capital, we built our practice around beta replication benchmarking precisely to expose false alpha. Risk adjusting any given asset manager’s returns is not an academic exercise. It is a governance imperative. Every CIO—and every investment committee—must be fluent in the tools that adjust historic performance for market and factor risk.

Don’t pay for performance fees for returns generated from excess risk. A simple regression against market and factor betas distinguishes genuine insight from intentional or inadvertent risk exposure.

5. LPs can be truly value added to GPs— beyond giving them our capital

If a GP can consistently generate alpha, access is the constraint for LPs. So how does an LP distinguish itself from its peers and add value to GPs beyond capital? Over decades we learned that platitudes about “strategic partnership” are cheap; tangible contribution is hard.

LPs do have one thing that GPs don’t have and that is a window into many of their GP’s peers. Our playbook leveraged such peer-based insights and focussed on four dimensions of value:

- Offering operational intelligence: team design, compensation, governance.
- Sharing LP-generated investment ideas (not sourced from other GPs, of course).
- Facilitating introductions to other “strategic” LPs.
- Engaging senior GPs in intelligent dialogue about their investment strategy and other PM/CIO level level issues — as peers, not evaluators.

The last one matters most. The best portfolio managers, like CEOs, are often lonely at the top. Senior LPs who engage their senior GP counterparts in deeply intellectual exchange, mostly on their investment strategy, create the most valuable long-term GP relationships. The highest and best use of our CIOs or asset class heads may in fact be their time in front of the most important GPs.

Where to Start

Every generation of CIOs inherits old debates, but also a richer body of collective experience. We should not be re-litigating first principles. We should be compounding them.

The five lessons above are not universal truths; they are scaffolding for deeper thinking.

The next frontier for institutional CIOs lies not in new investment models but in better understanding of how we reason, construct, and govern portfolios as teams of humans dealing with uncertainty. Great allocators will be the ones who spend less time refighting solved battles, and more time mastering how judgment evolves, especially with the growing set of AI and other technologies applicable to institutional investment management.

If I were stepping into the CIO role today, my focus would be unapologetically forward-looking. I would be harnessing AI not as a novelty, but as a core analytical advantage—enhancing our ability to forecast asset class returns, risks, and correlations, and, critically, to deconstruct asset manager track records to isolate true value creation from embedded beta and factor exposures. I would concentrate the portfolio around a small number of dominant, high-conviction investment themes, ensuring they are expressed coherently and consistently across asset classes. At the same time, I would bring discipline to the incorporation of geopolitical risk—distinguishing where it genuinely alters near-term investment outcomes from where it simply adds noise. The next generation of CIOs will not win by working harder on the old problems, but by applying better tools and clearer thinking to the right ones.

True North Institute

True North Institute (“TNI”) is a dual-purpose organisation serving as both a think tank dedicated to uncovering deep institutional investment insights and an investment firm focused on accelerating the global energy transition. TNI acts as the family office for Stan Miranda, the founder of Partners Capital Investment Group, the \$70B AUM outsourced CIO business operating out of 13 offices around the world.

TNI is based in London, where Stan is supported by a small team of investment professionals. True North’s mission is to mobilise trillions of investment dollars toward technologies that decarbonise the planet, proving profitability and impact go hand in hand. Guided by rigorous, objective research, we lead with our own capital to inspire the world’s largest institutions to follow.

True North’s strategy is anchored in two core initiatives. The first is the Decarbonisation Leaders public equity portfolio, which invests in the world’s leading companies driving large-scale emissions reduction—collectively expected to contribute more than five gigatons of CO₂e abatement by 2035. The second is the All Aboard Coalition, a curated group of 17 of the world’s most respected venture, growth equity, and infrastructure investors focused on low-carbon technologies, including geothermal, industrial decarbonisation, nuclear, energy storage, and grid enhancement. The Coalition’s objective is to catalyse greater collaboration and capital formation at the critical stage of first commercial scale, enabling syndicates to support the deployment of these capital-intensive solutions that are essential to achieving global decarbonisation.

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