

Understanding the Total Portfolio Approach: A primer

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Key takeaways

- 1** Strategic Asset Allocation (SAA) starts with asset-class weights; Total Portfolio Approach (TPA) starts with the total portfolio objective.
- 2** The main difference is governance: TPA gives more flexibility but demands stronger accountability.
- 3** Many investors considering TPA are likely to use a hybrid approach, keeping a form of SAA guardrails while adopting selected TPA principles.



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Understanding the Total Portfolio Approach: A primer



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Introduction

Few debates in institutional investing have moved as quickly from the frontier to the mainstream as the Total Portfolio Approach (TPA). A handful of large sovereign and pension funds, including The Canada Pension Plan, the New Zealand Superannuation Fund, Singapore's GIC, and Australia's Future Fund (which has run a TPA framework since its inception in 2006) have been managing capital this way for several years. CalPERS, the largest US public pension, formally implemented TPA in mid-2026.¹ A growing number of asset owners and family offices are now asking whether they should follow.

This article does not aim to be a TPA implementation guide, though follow up pieces will aim to provide greater insight into how TPA is being applied to different asset classes. Nor are we advocating for either approach. Rather, this article aims to explain, in plain language, the similarities and differences between SAA and TPA.

- **Strategic Asset Allocation (SAA):** the historically favoured approach that sets a long-term policy mix of multiple asset classes, implements each through dedicated mandates, and measures each against its own asset-class benchmark.
- **Total Portfolio Approach (TPA):** An integrated approach that measures the performance of all assets as a single portfolio, judging every decision by its contribution to the institution's overall objectives rather than to an asset-class benchmark.

Myth-busting TPA

Myth: TPA is replacement for SAA.

Reality: Many institutions adopt a hybrid model, retaining SAA-style guardrails or reference portfolios while applying total-portfolio thinking to active decisions, liquidity, private markets, and risk budgeting. The more balanced view is that SAA and TPA sit on a spectrum defined by an investor's commitment to increasing investment flexibility while implementing the necessary governance to oversee that flexibility effectively. Some investors may keep an SAA framework but apply TPA principles to active decisions, liquidity management, private-market pacing, or cross-asset risk. Others may move further towards a full total-portfolio model. The right answer depends on objectives, governance, and implementation capability.

Myth: SAA is obsolete.

Reality: SAA remains useful where clarity, transparency, board oversight, and ease of communication are priorities, especially for institutions with more limited governance capacity or data infrastructure. It is unlikely to disappear, in our view.

Myth: TPA means no benchmarks.

Reality: While TPA does not require a benchmark as a matter of principle, many early adopters are using a benchmark-like reference portfolio. This is usually because boards want a simple governance tool for measuring alpha capture, defining risk appetite, or creating a hurdle for active decisions. However, we also see TPA investors who measure performance against the mandate objectives over the longer term, so the objective can be either relative or absolute.

If a benchmark is used, then TPA changes the nature of the benchmark to an overall portfolio-wide objective. Under SAA, performance is broken down to be assessed against asset-class benchmarks. TPA does not remove accountability but aligns it with the investor's mission.

Our reading of the topic suggests most institutions implementing TPA are using some form of reference portfolio.

1. Source:
calpers.ca.gov/newsroom/calpers-news/2025/calpers-board-adopts-streamlined-investment-approach-to-seize-market-opportunities

Myth: TPA is only suitable for the largest funds.

Reality: Large funds have been early adopters because they often have the scale, data, and internal resources to implement TPA fully, but smaller institutions can still adopt selected principles in areas such as liquidity management, private-market pacing, and cross-asset relative value.

Myth: SAA can be just as flexible as TPA.

Reality: SAA can include tactical tilts, but usually within pre-set ranges, whereas TPA gives the chief investment officer (CIO) greater structural flexibility to allocate capital wherever the expected contribution to the overall portfolio is strongest.

Myth: TPA governance is just SAA governance with minor adjustments.

Reality: TPA requires a more substantial governance shift, with boards defining mission, objectives, and total-fund risk appetite, while delegating more dynamic capital-allocation authority to the CIO or investment committee.

Myth: TPA automatically reduces allocations to private markets and illiquid assets.

Reality: TPA does not prescribe higher or lower private-market exposure; it asks whether each commitment improves the total portfolio after considering return, risk, liquidity, fees, transparency, and operational complexity. In some cases, TPA may make the case for private markets more demanding, because private assets need to justify their place against all other uses of capital. In other cases, a well-governed TPA framework may support meaningful private-market exposure, provided the investor has robust liquidity planning, cash-flow forecasting, and risk measurement. The key point is that illiquidity must be budgeted deliberately. Private assets can sit within a total-portfolio framework, and they are not treated as a separate world.

A disciplined TPA framework may even allow some investors to hold larger illiquid allocations than a traditional bucketed framework would permit, but only if liquidity buffers, pacing plans, stress tests and rebalancing tools are explicit.

Myth: TPA guarantees outperformance.

Reality: TPA can improve the quality of portfolio decisions, but it does not create investment skill. TPA removes some constraints and gives investors more flexibility. Whether that flexibility adds value depends on governance, data, risk systems, implementation discipline, and of course investment judgement.

Performance evidence around TPA needs to be treated carefully. Reported advantages for early adopters may reflect better governance, stronger internal teams, scale, investment skill, or other institutional features, not the framework alone. In our opinion, TPA better frames the question that investors are seeking to answer, but certainly does not guarantee results.

The real difference: decision authority and accountability

The most useful way to distinguish SAA from TPA is not to ask which framework is “better,” but rather to examine who has the authority to make decisions, how much discretion they have, and how they are held accountable:

- Under SAA, the board or investment committee typically owns the portfolio allocation policy, setting the long-term allocation to each asset class and the ranges within which the investment team can operate. The investment teams then implement the policy, managing each sleeve against its specific benchmark.
- Under TPA, the board sets the mission, objectives, risk appetite, liquidity constraints, and governance boundaries, then giving discretion to the Chief Investment Officer / investment team to allocate capital dynamically across the whole opportunity set. The investment team is judged on whether total-fund decisions improve outcomes relative to the investor’s overall objective or reference portfolio, rather than on whether each sleeve beats its asset-class benchmark.

This is the heart of the trade-off: TPA offers greater flexibility but that means good governance is paramount. Without clear decision rights, a reference point, risk limits, and transparent reporting, TPA risks being vague, complex, and hard to defend. However, with robust data and governance foundations in place, investors are better able to compare opportunities, risks, and liquidity trade-offs more coherently across the whole portfolio.

Similarities and differences

Dimension	Strategic Asset Allocation	Total Portfolio Approach
Objectives	Both aim to meet long-term obligations or objectives within an acceptable risk budget.	
Governance needs	Both depend on diversification, governance discipline, and a clear investment belief system.	
Decision framework	Both need a way to assess whether active decisions are adding value.	
Starting point	Long-term asset-class weights.	The total portfolio objective.
Decision unit	Asset-class sleeve.	Whole portfolio.
Risk lens	Deviation from policy weights and asset-class benchmarks.	Contribution to total-fund risk, including factor exposures.
Benchmarking	Asset-class benchmarks.	Reference portfolio, liability-relative objective, or real-return target.
Governance	Board sets policy weights; asset-class teams implement.	Board sets mission and risk appetite; CIO and investment team allocate dynamically.
Adaptability	Periodic review and rebalancing.	Ongoing reassessment of relative value and marginal contribution.
Main advantage	Transparency, simplicity, and discipline.	Flexibility, stronger alignment with outcomes and better cross-asset comparison.
Main risk	Silo behaviour and hidden factor concentration.	Complexity, governance strain, and higher data demands.
Best suited to	Institutions that need clear policy governance, stable benchmarks, and straightforward communication	Institutions with the governance, data and accountability needed to manage more dynamic total-fund decisions

Source: Invesco Strategy & Insights, based on analysis of SAA and TPA frameworks and source material reviewed for this primer. As of 26 June 2026.

Why interest in TPA has risen

In our view, interest in TPA has risen partly because institutional portfolios have become more complex and are incorporating a broader range of assets.

- Many institutional investors now allocate to strategies that do not fit neatly into a simple listed-market framework. Private market and other alternative assets offer diversification potential, but they also bring illiquidity, valuation uncertainty, and more complicated risk exposures.
- Asset-class labels can hide common underlying risks; a portfolio may appear diversified across asset classes, but still ultimately be heavily exposed to the same macro drivers or factors. TPA addresses that by looking through the asset-class label and assessing the contribution to the whole fund.
- Faster market moves can expose the limits of static policy weights and slow decision processes. TPA can provide that flexibility, but only if the organisation has agreed in advance who can act, within what limits and with what reporting back to the board.

What good implementation requires

This primer is not intended to be an implementation manual, but we believe five requirements are important to understand. Together, these considerations will help determine whether the change results in flexibility through disciplined governance, or if it simply adds extra complexity.

First, governance must be clear. The Chief Investment Officer and investment team need clarity on the objective, risk appetite, liquidity needs, and constraints, setting parameters for decision limit and time horizon.

Second, the investor needs a reference point. Whether a reference index, a liability benchmark or a real-return objective, a reference point helps the board judge whether active decisions are adding value and whether the portfolio remains aligned with the institution's purpose.

Third, data and risk systems must support total-fund decisions. A fuller TPA framework needs an integrated view across public markets, private markets, derivatives, currency, liquidity, and factor exposures. Without that, the investor may have more discretion but no better understanding of the risks being taken.

Fourth, implementation tools must match the ambition. Overlays, liquidity frameworks, currency management, private-market pacing, and completion portfolios can all help investors act at the total-portfolio level. Currency management is a good example. Under SAA, FX exposure can be managed unevenly across asset classes, leaving the total portfolio with an unintended currency position. TPA brings that exposure into the open and asks whether currency risk should be hedged, rewarded, budgeted, or managed centrally. A centralised currency overlay can therefore be a practical early step towards total-portfolio thinking.

Fifth, change is usually incremental. The most realistic path is often to start with one or two areas where total-portfolio thinking can add visible value, such as improved risk reporting, centralised liquidity management, or a clearer framework for active risk. Early successes can then build confidence for broader change.

We think TPA can be most useful where the investor's objective is hard to capture through a simple asset-class benchmark, or where cross-asset interactions, liquidity needs and factor concentrations materially affect outcomes. In those cases, a total-portfolio lens may help investors compare opportunities and risks more clearly. The case for TPA is not that it is more modern or sophisticated. It is that the investor has a problem that asset-class buckets do not solve well.

Conclusion

TPA is best understood as an evolution in portfolio governance, in our view. It is not a rejection of SAA. SAA remains a clear and effective way to frame long-term investment policy. TPA asks a different question: What is the best use of the next unit of capital, risk, liquidity, and governance attention for the whole portfolio?

That question can improve the quality of decision-making, but only if the governance model can support the additional discretion. TPA requires stronger governance, better data, clearer accountability, and a more collaborative investment culture. Without those foundations, extra flexibility can become extra complexity. For many institutions, the most effective approach may not be a full move to TPA, but a better-governed version of SAA that incorporates selected total-portfolio disciplines.

For most investors, the right question is not "SAA or TPA?" It is "how much discretion can we govern well?" The answer could determine how far, and how quickly, they move along the spectrum from strategic asset allocation towards a total portfolio approach.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Past performance is not a guide to future returns.

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