



Total Portfolio Approach for Institutional Investors: The Governance Blueprint

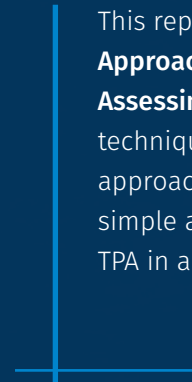


2025



Executive Summary

This report focuses on the foundational element that determines the successful application of the **Total Portfolio Approach (TPA) – the role of governance**. In our previous report **Total Portfolio Approach for Pension Funds: Assessing Regional Risk and Return Differences Through a Factor Lens Analysis**, we focused on the quantitative techniques of TPA. In this publication, we dive into the rationale behind TPA, its distinction from traditional approaches, and the governance structures that support its effective adoption. We conclude our findings with simple and practical oversight tools that institutional investors, such as pension fund Boards, can use to monitor TPA in action.





Introduction

As the institutional investment landscape continues to evolve, traditional models of portfolio management, such as Strategic Asset Allocation (SAA), are being challenged by factors such as market volatility, regulatory shifts, and the growing need for agility. In response, institutional investors, particularly pension funds, are starting to turn their attention to the Total Portfolio Approach – a dynamic, mission-driven framework that treats the portfolio as a unified whole. Although often discussed in terms of its analytical tools or implementation strategies, TPA's depends on successful governance strategies. Governance defines the decision-making structure, the roles and responsibilities of stakeholders, and the cultural alignment necessary to sustain a long-term investment mission.

At Ortec Finance, our approach to portfolio management has consistently been mission-driven and centered on viewing the portfolio as a unified whole. Our holistic approach is, in essence, a hybrid between SAA and TPA, providing a route that is straightforward to implement. The analysis we put forth in this report indicates that, among clients who are using some form of a hybrid approach involving SAA, a move toward a full TPA is possible when measures such as governance strengthening, adopting factor exposures, improving liquidity, and implementing risk budgeting practices are undertaken. We explain how institutions can transition from a traditional SAA model toward TPA in a phased, low-disruption way.



Why TPA?

TPA is more than a portfolio construction method – it is a governance philosophy ensuring that all decisions are made based on the institution’s long-term goals (for example, a pension fund’s mission to meet future liabilities). TPA enables institutional investors, including pension funds, to move beyond investment processes that offer less flexibility and toward a unified, agile, and mission-aligned approach. In contrast to SAA, which often relies on static allocations and periodic rebalancing, TPA encourages continuous alignment between investment decisions and long-term goals.

In a TPA framework, all investment decisions are made based on a single, overarching mission, thereby reducing internal competition between asset class teams, enhancing responsiveness to market developments and fostering a culture of accountability. One clear-cut example of responsiveness to market developments is TPA’s employment of intertemporal hedging which, in effect, allows institutions to make decisions today that preserve their ability to take action in future adverse market states. Moreover, for Board members and executives of institutional investors in particular, TPA offers a clear line of sight between governance decisions and portfolio outcomes.

What is TPA?

At its core, the Total Portfolio Approach is a governance-led investment framework where the portfolio is treated as a single entity, rather than a collection of individual asset classes. This unified view allows for more dynamic allocation of capital, more effective risk management, and stronger alignment with institutional objectives.

TPA is implemented through a centralized decision-making process typically led by the Chief Investment Officer (CIO) who is empowered to allocate capital across the entire portfolio in real time. Unlike the SAA model where decisions are based on asset class limits and reviewed on a fixed schedule, in the TPA model the CIO operates within Board-approved parameters and predefined escalation thresholds for major shifts.

While TPA is a flexible framework that can be adapted to specific needs and requirements of various organizations, it is not a one-size-fits-all model and that is why a strong governance foundation is the uniting factor of all successful TPA implementations. In practice, a successful TPA implementation ensures that public and private markets are integrated into a single decision process, such that pacing, rebalancing, and risk control are coordinated effectively across both markets.

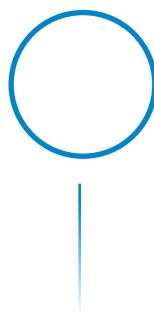


TPA vs SAA

The distinction between TPA and SAA is not merely technical – it is also a matter of rationale. SAA is rooted in Modern Portfolio Theory and emphasizes diversification through fixed asset class allocations, though adapting SAA to changing market conditions can take more time.

TPA, on the other hand, goes beyond asset class-based approaches by emphasizing integration, agility, and mission alignment, and allowing for real-time capital allocation based on evolving opportunities and risks. Governance plays a central role in this model, ensuring that all decisions are made based on the institution’s long-term goals.

For Board members, the shift from SAA to TPA represents a move from oversight of individual asset classes to stewardship of a unified investment mission. This approach requires a different mindset, new processes, and a willingness to embrace cultural change. Boards must, therefore, move from approving fixed allocations to setting principled boundaries, such as total risk ranges, liquidity coverage minimums, and private market pacing limits. Once those actions are put in place, management can then act dynamically within the predetermined limits.





The Role of Risk Budget and Liquidity

In a TPA framework, guidelines replace non-flexible allocation targets which might include:

- Portfolio volatility range (e.g., 6–10%)
- Maximum drawdown tolerance (e.g., 15%)
- Liquidity coverage ratio (e.g., projected 18-month net outflows covered $\geq 1.2x$)
- Private market NAV and pacing bands

Risk parameters protect the mission while granting the CIO room to adapt to market shifts. Those parameters encourage collaboration across the organization, helping to break through silos by requiring different investment teams to consult and coordinate with each other. Liquidity plays a critical role within this structure as the 'liquid book' is not merely a passive beta allocation – it is the portfolio's shock absorber, capital call funder, and source of optionality during dislocations.

Clients working within the TPA framework express risk budgets not only at the total fund level but also through specific buckets. These risk buckets could take the form of factor exposures, such as equity beta, credit, duration, and inflation. Using a bucketing mechanism that is not necessarily defined along asset class borders enhances transparency and consistency, while giving the CIO the flexibility to allocate risk along the dimensions and thus shift dynamically across asset classes. Employing this approach ensures that both public and private markets are managed against the same underlying risk drivers.



Five Pillars for Successful TPA Implementation

Given that TPA is most effective when supported by a robust governance framework, we identified five pillars for successful TPA implementation:

- 1 Unified portfolio mission:** a clearly articulated investment mission that guides all decisions across the organization. This mission should be endorsed by the Board and embedded in the institution's or fund's culture.
- 2 CIO-driven process:** centralized leadership by a CIO, who sets the frameworks and mandates for the investment team, while being empowered to make portfolio-wide decisions within pre-set risk budgets and with clear escalation paths for exceptional actions.
- 3 Long-term focus:** a strategic orientation that prioritizes long-term outcomes over short-term performance. This step requires discipline and alignment between stakeholders.
- 4 Adaptive execution:** the ability to respond to evolving market conditions in a timely manner while staying committed to the mission.
- 5 Organizational and cultural adjustment:** successful TPA implementation often requires changes to organizational structure, decision-making processes, and internal culture. Buy-in from all levels of the organization is essential. Aligning incentives and evaluation metrics to total fund outcomes rather than individual benchmarks is required.



Finding Your TPA Governance Framework

We recommend the following approach when implementing TPA:



Define the mission and long-term goals: the Board must articulate a clear investment mission and long-term objectives that will guide all portfolio decisions.



Establish strategic oversight and risk appetite: governance structures should define the boundaries within which the CIO and investment team operate, including risk tolerance and performance expectations.



Design the portfolio framework: the portfolio should be structured to support the mission with flexibility to allocate capital dynamically across opportunities. This step includes integrating public and private markets, maintaining liquidity buffers to enable intertemporal flexibility, and embedding the use of a risk budget as a central element of portfolio design. The risk budget can be specified based on risk buckets. A practical way to operationalize risk bucketing is through factor exposures. By framing the portfolio in terms of underlying risk drivers – instead of asset classes – institutional investors, such as pension funds, can better allocate risk, monitor diversification and preserve flexibility for the CIO and investment team.



Organize the internal team: roles and responsibilities must be clearly defined with a focus on collaboration and shared accountability.



Execute with discipline and agility: the CIO and investment team must be empowered to act decisively, supported by robust internal systems and processes. Boards should receive concise oversight packs summarizing exposures, risk budget usage, scenario readiness and key decisions taken by the management.



Monitor and continuously review: governance is an ongoing process. Regular reviews ensure that the portfolio remains aligned with the mission and that lessons are incorporated into future decisions. Use a reference portfolio as a benchmark for performance and risk comparison.



Is TPA Right for Your Institution?

Institutional investors should carefully assess their readiness before making the decision to implement TPA, taking into consideration the size of their fund, their complexity, and their governance maturity. We recommend implementing a hybrid approach which incorporates elements of both SAA and TPA – a model that may be especially valuable for institutions where:



Governance maturity is still developing: hybrid models can help smaller organizations build stronger oversight structures and accountability mechanisms while moving towards full TPA.



Change management requires pacing: transitioning to TPA involves significant organizational and cultural change. A hybrid model allows institutions to invest in training, communication and leadership alignment at a sustainable pace.



Integration is a process: hybrid approaches can progressively incorporate systems, data infrastructure and reporting frameworks, ensuring that operational foundations are robust before moving to full TPA.



Cultural alignment takes time: adopting a hybrid approach enables organizations to gradually move from less flexible, Board-driven allocation models to a more executive-led, collaborative structure, easing cultural resistance while still advancing shared accountability.

An industry-leading example of TPA in action can be seen in Australia's sovereign wealth fund sector, which transitioned from fixed SAA targets to an integrated, guardrail-based TPA model. The Board set boundaries for portfolio risk, liquidity coverage and private market pacing, while empowering the CIO to make real-time, whole-of-portfolio decisions. Public and private assets were managed together with the liquid book serving as a strategic reserve to meet capital calls, respond to dislocations and adjust exposures as conditions shift. Performance was assessed against total fund outcomes using a reference portfolio and oversight was streamlined through concise reporting on exposures, guardrail compliance, as well as scenario readiness. This example demonstrates how disciplined governance allows TPA to operate effectively and how the principles outlined in our report can be applied in a real-world institutional investor setting.



Conclusion

The Total Portfolio Approach offers a powerful framework for aligning investment strategy with long-term goals. In our experience, institutions who commit to investing not only in robust models and technology but also in strong governance structures, clear missions, empowered leadership and cultural alignment are best positioned to successfully implement TPA. Our recommendation for institutional investors, particularly pension funds, who are considering transitioning from SAA to TPA is to start with putting in place guardrails, a reference portfolio and enhanced liquidity governance. These actions will create early wins while simultaneously easing cultural change across the organization. At Ortec Finance, we specialize in providing advanced Asset-Liability Management, scenario analysis and investment decision-making support solutions for institutional investors. If you would like to explore how TPA applies to your organization, please reach out to a member of our team.



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This is accomplished via the delivery of leading technologies and solutions for investment decision making to financial institutions around the world. Ortec Finance's strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

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