

From Strategic Asset Allocation to Total Portfolio Approach

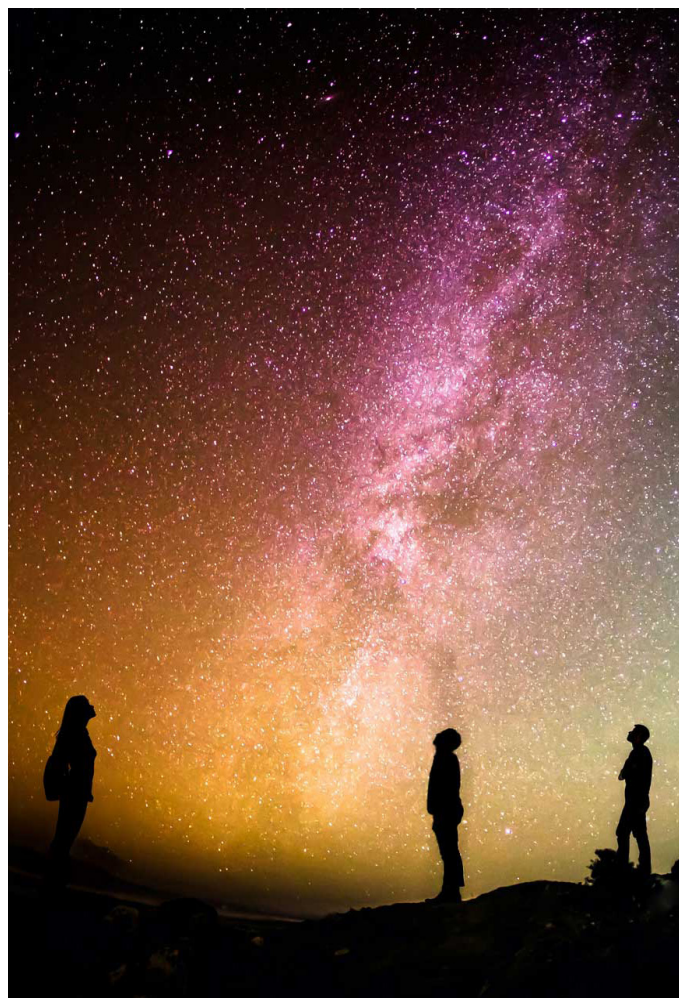
A Practical Evolution for Asset Owners

From SAA to TPA - a practical evolution for Asset Owners

Asset owners are navigating a more complex investing world: higher macro volatility, evolving liabilities, greater exposure to illiquids, and heightened governance expectations. Strategic Asset Allocation (SAA) - the industry's established framework for decades, has delivered discipline and diversification, but its asset-class buckets, static long-term weights, and siloed execution make it increasingly hard to manage correlated risks and respond to fast-moving regimes.

A growing body of leading practice is shifting towards a Total Portfolio Approach (TPA) - an objective-driven, whole-of-portfolio framework that: (i) starts with explicit outcomes (e.g. CPI + real returns, funding-ratio stability, draw-down and liquidity tolerances); (ii) evaluates every investment for its marginal contribution to those outcomes and risks; (iii) frames decisions through a factor and liquidity lens; and (iv) empowers faster, accountable execution within clear risk budgets and governance boundaries.

Technology is now a practical enabler: unified investment and risk platforms like BlackRock's Aladdin® can aggregate data across public and private assets, quantify cross-asset interactions, and present decision-useful insights to boards and CIO teams in near real time. The result is a portfolio that is more resilient, more adaptive, and more transparent and all this without abandoning the long-term discipline that SAA sought to instil.



1. 50 Years of SAA and why it's straining

For half a century, SAA - grounded in modern portfolio theory and implemented via mean-variance optimisation - has provided a common language for boards, CIOs, OCIOs and investment teams to set long-term policy weights and rebalance to plan.

Over time, the investable universe expanded: private equity and debt, real assets, hedge fund strategies, and hybrids. While SAA absorbed this breadth by adding buckets, the model's reliance on broad labels and fixed weights created challenges:

- **Classification friction:** Many strategies resist neat categorisation (e.g. secondaries, special situations, hybrid credit). Forecasting long-term expectations and risks for heterogeneous buckets becomes blunt.
- **False diversification:** Portfolios that appear diversified by asset class can still concentrate in shared underlying drivers (e.g. growth, credit, liquidity, duration), particularly visible in stressed markets.
- **Organisational silos:** Asset-class teams optimised within their sleeves, often chasing benchmark-relative performance rather than the best total-portfolio trade-off.
- **Slow adaptation:** Static policy weights and periodic rebalancing can lag regime shifts, structural inflation changes, liquidity cycles, and cross-asset opportunity costs.

2. What TPA is (and isn't)

Total Portfolio Approach (TPA) is not a single model or a one-size-fits-all template. It is a governance and decision-making paradigm that puts the one portfolio, and its end outcomes at the centre.

List of core principles:

- **Objectives first:** Define explicit, measurable outcomes (e.g. CPI+ x% with y% draw-down tolerance, funding-ratio stability, liquidity coverage under defined stress).
- **Competition for capital:** Every new and existing position must earn its place against the next-best use of risk, capital and liquidity.
- **Factor & liquidity lens:** Look through to the underlying drivers of growth, rates, credit spreads, inflation sensitivity, illiquidity, currency and then size positions accordingly.
- **Dynamic capital allocation:** Adjust faster to changing opportunity sets while staying inside a board-approved risk budget and liquidity framework.
- **Whole-portfolio accountability:** success is measured against total-fund outcomes, not sleeve-level benchmarks.

What TPA isn't:

- Not abandoning discipline. The risk budget and governance scaffolding are stricter, not looser.
- Not just a modelling exercise. Culture, incentives, mandates and data plumbing matter as much as analytics.
- Not an overnight switch. Most adopters phase in TPA over multiple cycles.

3. Why Asset Owners are evolving: Tangible Benefits

Better alignment with outcomes

TPA reframes the question "Are we close to policy weights?" to "Are we on track to outcomes given current prices, risks and constraints?" It encourages capital to flow to the highest-conviction, most efficient ideas at the margin, rather than filling asset sleeves.

Stronger, clearer risk management

A factor lens reveals the true risk mix (growth, duration, credit, inflation, illiquidity, currency) and how it behaves under scenarios. Risk factors serve as a common language allowing illiquid private assets to be assessed on equal footing with public ones for their risk, return, and liquidity contributions.

Fewer blind spots from manager silos

By evaluating positions side-by-side across the portfolio, TPA reduces duplicative exposures, crowding and unintended concentrations. It also lowers reliance on ex-post completion overlays.

Governance, empowerment and transparency

Boards retain strong control via outcomes, risk budgets and scenario tolerances while empowering the CIO to act swiftly within those bounds. A collaborative approach pulling together investment and stakeholder partnerships. Modern dashboards and reporting enhance attribution and auditability at the total-fund level with clear and transparent communication.

Technology-enabled comparability

Unified data and risk platforms like Aladdin streamline apples-to-apples comparisons across strategies and structures, including private markets, improving both decision quality and reporting clarity.



4. SAA vs TPA - at a glance

Theme	SAA	TPA
Framework	Asset-class buckets; long-term policy weights	Explicit outcomes; total-fund risk budget
Risk analysis	By sleeve/benchmark	By factors, liquidity, and liabilities
Capital allocation	Periodic, to preset targets	Continuous, to best marginal ideas
Governance	Set limits and monitor sleeves	Own risk budget; oversee outcomes and scenarios
Manager selection	Many managers per asset bucket, overlaps common	Fewer, broader mandates aligned to portfolio roles
Transparency	Sleeve reports	Total-portfolio attribution, scenario and factor dashboards

5. The Operating Model: Four pillars of TPA

1. Governance

Board/Investment Committees defines the North Star (objectives), approves a risk budget and liquidity tolerances, and shifts time from micromanaging allocations to assessing portfolio resilience, decision quality, and learning cadence. The CIO is empowered to re-size and re-route capital across the whole portfolio within clear boundaries.

2. Factor & Liquidity Lens

Establish a parsimonious factor set (e.g. growth, rates/duration, credit, inflation, illiquidity, currency) and map each strategy consistently — public or private. Maintain liquidity ladders and stress paths (e.g. historical events or market driven scenarios e.g. geopolitical or market driven by equity, rates or credit stresses, simultaneous draw-downs, capital calls, collateral needs etc.).

3. Competition for Capital

Compare opportunities on a common scorecard: expected return, factor/volatility levels and correlations, draw-down and liquidity costs, capacity, fees, and resourcing burden. Size new ideas and right-size legacy positions explicitly against the next-best use of risk.

4. Culture & Incentives

Align scorecards and remuneration to multi-year total-fund outcomes. Build “one portfolio” behaviours: cross-team forums, shared research pipelines, and norms that encourage selling good ideas to fund better ones.



6. Practical Roadmap for Asset Owners to adopt Total Portfolio Approach

Step 1: Define outcomes & constraints

Translate mandate and liabilities into explicit outcome metrics (CPI+ targets, funding-ratio bands, drawdown and volatility limits, liquidity coverage). Make trade-offs explicit (e.g. tolerance for illiquidity vs. drawdown asymmetry).

Step 2 - Set the risk budget & (optionally) a reference portfolio anchor

Adopt a board-owned market risk appetite and liquidity envelope. Some adopters use a simple reference portfolio as an anchor during transition — useful for communication, not a straitjacket.

Step 3 - Build the factor & liquidity view

Define the factor set; map strategies and legacy holdings; estimate sensitivities and confidence ranges. Establish commitment growth path for privates and contingency plans for calls/collateral under stress.

Step 4 - Re-platform data & analytics – one platform, one process, one data set

Unify position, exposure, risk, and cash-flow data across public and private assets. Implement scenario, factor, and liquidity analytics with drill-downs that are understandable to both practitioners and the board.

Step 5 - Redesign mandates and manager selection process

Move from tight sleeves to solution-oriented mandates with clear portfolio roles (e.g. growth risk, diversifiers, inflation protection, liquidity buffers).

Rationalise the roster of managers to reduce overlap and increase mandate agility – remove unintended risk concentrations.

Step 6 - Codify competition for capital

Stand up a cross-asset investment committee that reviews a common scorecard for new and existing positions. Require explicit statements of marginal impact and sources of edge (structural, analytical, sourcing, speed).

Step 7 - Pilot, learn, scale

Start with a contained sleeve (e.g. overlays, cross-asset relative-value, or an opportunistic bucket). Use rapid cycles to refine analytics, governance cadence, and challenge cultural norms then scale to the full portfolio.



7. Risk, controls, and what can go wrong

- Model risk & false precision: Keep factor sets parsimonious; validate with back-tests, scenario narratives, and expert judgement; show confidence ranges not single-point estimates.
- Private-asset measurement: Address lagged/smoothed return series; focus on cash-flow-based analytics, write-down policies, and liquidity stress scenarios.
- Use attribution analysis: Provide both factor-based and traditional views to meet different stakeholder preferences.
- Geopolitics, climate, structural inflation: Incorporate forward-looking scenarios and action triggers; adjust geographic and sector footprints deliberately. Make the platform talk the same language as your investors
- Operational complexity: Avoid sprawling tool-kits. Standardise templates, automate data flows, and assign clear process ownership.

8. Metrics that prove progress

What does success look like?

- Outcome alignment: Progress towards CPI+ or funding-ratio targets; improved draw-down asymmetry.
- Risk quality: Lower unintended factor concentrations; better diversification in stress; robust liquidity coverage under defined scenarios.
- Governance velocity: Faster idea-to-implementation within risk bounds; board time re-weighted to strategic debates and post-decision reviews.
- Manager efficiency: Fewer, more flexible mandates; less need for completion overlays; lower fee leakage per unit of delivered outcome.
- Learning cadence: Documented decision logs, after-action reviews, and a measured reduction in “regret” trades.



9. Frequently asked questions from clients

Q: Do we need to abandon SAA entirely?

A: No. Many funds retain a simple anchor (e.g., a reference mix or risk budget) for communication and accountability while operating day-to-day under TPA.

Q: Can smaller asset owners adopt TPA?

A: Yes. Start with a factor and liquidity dashboard, a cross-asset committee, and mandate tweaks that enable competition for capital. Outsourcing elements is feasible if governance stays outcome-led.

Q: Will TPA increase costs?

A: There can be upfront investment in data, analytics, and change management. Over time, manager rationalisation, reduced overlaps, and better capital efficiency can offset these costs.

Q: How long does the transition take?

A: Typically, multi-year. Wins come early via overlays and cross-asset relative-value sleeves; deeper mandate and culture changes follow.

Conclusion

SAA brought order and diversification to an expanding investment universe for many decades. But today's environment, illiquidity growth, complex correlations, and faster economic cycles and regimes requires a more explicit, dynamic, and outcome-centred approach. TPA delivers that evolution: it elevates the one portfolio, measures what matters, and moves capital to the best ideas at the margin and all within a transparent risk and governance framework. For Asset Owners intent on resilience and durable real returns, the shift from SAA to TPA is less a stylistic choice than a strategic imperative.



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Anders brings over 20 years expertise of delivering solutions for clients on the Aladdin platform, from implementations, fund migrations, outsourcing, risk and analytics and defining the gold standard in Operational Alpha, his breadth and depth of knowledge on the Aladdin platform is an exceptional asset to Strata and our clients.



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