Thinking Ahead Institute
An innovation network founded by WTW

The TPA Story

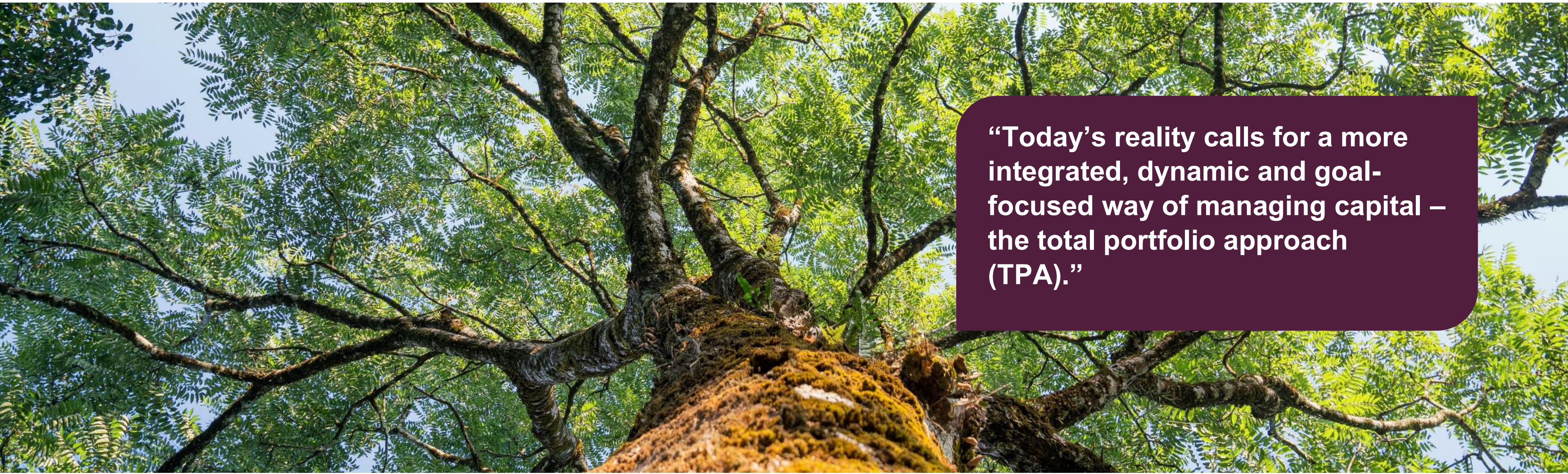
Why now is the time to adopt the total portfolio approach

Introduction

This is a defining moment for institutional investors. The investment environment has become more complex, more uncertain and more demanding. Market regimes are shifting, risks are compounding and expectations on capital are rising. At the same time, investors are being asked to deliver more, not only returns, but also resilience, sustainability and purpose.

Many are finding that traditional models, like strategic asset allocation (SAA), cannot adequately meet these increased demands. They were built in a more stable world. Today's reality calls for a more integrated, dynamic and goal-focused way of managing capital, the total portfolio approach (TPA). It is a way of thinking that connects strategy, risk, governance and purpose in a single investment system. TPA enables better decisions, clearer accountability and stronger alignment across the organisation.

Whether you are just starting the journey or already on the path, we hope this positioning paper gives you a clear sense of what is possible, and what it takes to move forward with confidence.



What is a total portfolio approach?

And why you should know about it

Born in the early 2000s, TPA is a holistic investment management framework that assesses and manages risk and return at the level of the entire portfolio. At its core, TPA is built on three principles:

Goal-driven: a continuous focus in portfolio construction on achieving the fund's investment goals.

Best-idea selection: all investment opportunities compete at the total fund level and only the best ideas are considered.

Dynamism: the portfolio is managed in real time and decisions respond to markets, and to the fund's goals as they evolve.

Where did it originate from?

Our involvement from the start

For many leading institutional investors, the TPA has become a defining characteristic of how they manage capital in a fast-changing world. As more organisations explore how to build resilient, agile investment models, the case for TPA is no longer theoretical. It is practical, proven and increasingly necessary.

After two decades of exploring TPA, the approach is now gaining momentum.

The story

- SAA was a perfect construct for a time when Boards were dominant, issues were less complex and managing the managers was the focus.
- Boards and internal teams/ external managers were comfortable with their roles, accountabilities and measurement.
- But with the ecosystem maturing, the gaps in the joined-upness in the system became clear and TPA emerged.
- In the 2010s both systems co-existed, in the 2020s the TPA vs SAA debate has become contested with sustainability a factor in the mix.

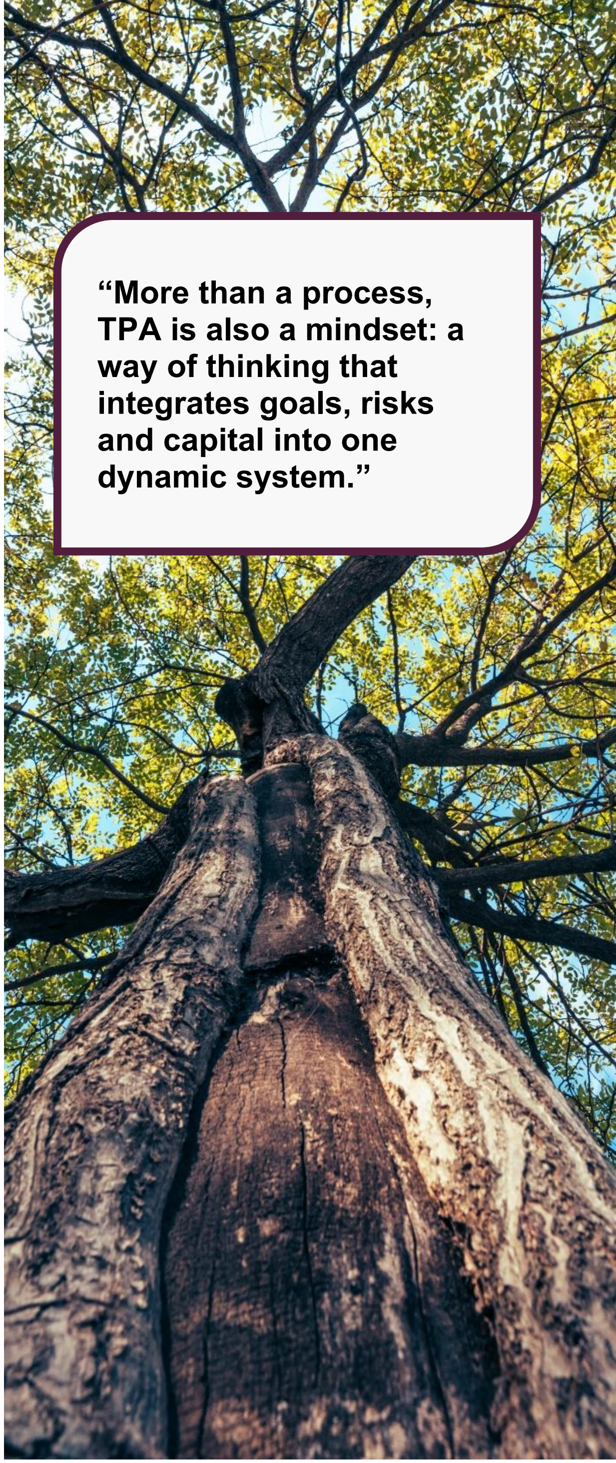
Thinking Ahead has been a key voice in the development of TPA. Our recent work has linked TPA to broader ideas of risk evolution, 3D investing, portfolio scorecards and organisational alpha; all of which are now increasingly relevant as funds navigate sustainability, illiquidity and systemic risk.

TPA emerged as a timely response to the growing limitations of SAA, the traditional and still dominant model. SAA was built in, and for, a more stable world, where markets, risks and capital flows were relatively predictable. But today's environment is anything but stable. Regime shifts, rising systemic risks and greater market instability are challenging the effectiveness of static, siloed strategies. Institutional investors are increasingly questioning the assumptions behind SAA, recognising that it struggles to keep pace with a world that is more complex and dynamic.

More than a process, TPA is also a mindset: a way of thinking that integrates goals, risks and capital into one dynamic system. It requires rethinking how decisions are made, how success is measured, and how teams work together across the organisation. Critically, it means shifting the focus from managing portfolio components to designing the portfolio as a whole.

This table outlines how TPA reshapes key roles and processes compared to the traditional SAA model:

	Strategic Asset Allocation	Total Portfolio Approach
Boards	Set top-down SAA and asset allocation policy	Set total risk appetite via a reference portfolio
Implementation	External managers implement the SAA via separate mandates	Managers, internal, or delegated, allocate capital
Oversight	Oversees manager mandates and individual performance	Oversees total portfolio outcomes and alignment with fund goals
Success measure	Evaluates alpha at mandate level	Evaluates value added at total fund level over fund goals



"More than a process, TPA is also a mindset: a way of thinking that integrates goals, risks and capital into one dynamic system."

TPA: better investment performance and organisational effectiveness

Why TPA matters today

This section outlines the main benefits of TPA, both in terms of investment performance and organisational capability.

1 TPA improves organisational effectiveness

- **Stronger investment governance with clearer roles and accountability**: TPA's governance model separates strategic intent (risk appetite and long-horizon goals) from execution and acts to strengthen alignment between the board and executive.
- **More effective delegation:** the empowered executive is able to apply their skill to the fullest extent in the full delegation.
- **More effective oversight:** the board owns the risk appetite through the reference portfolio and the diligent and detailed oversight of the portfolio.
- **Broader performance metrics**: total fund dashboards enable holistic monitoring across returns, resilience, sustainability and delivery quality.

2 TPA unlocks teamwork

- **One-team culture**: the search for the best ideas fosters shared commitment across the organisation.
- **Culture of continuous improvement**: TPA fosters a collaborative, forward-looking culture where incentives, behaviours and performance frameworks reinforce clarity of purpose.
- **Efficient use of executive time**: TPA empowers executives to act quickly within agreed parameters, spending less time navigating internal friction and more time making high-value decisions.

3 TPA maximises opportunities

- **Dynamic allocation**: in contrast to the calendar-based reviews of SAA, TPA enables real-time decision-making. Risk and capital can be reallocated swiftly as opportunities and conditions change.
- **Flexible risk budgeting**: TPA allows the risk level itself to vary, based on time-varying risk premia and market conditions.
- **Fund-specific calibration**: decisions can be more finely tuned to a fund's unique circumstances and objectives, rather than relying on fixed policy portfolios.
- **Long-term capital alignment**: by aligning portfolios with real-world outcomes, funds position themselves for enduring value creation and system stability.
- **More effective allocation to illiquid and alternative assets:** TPA allows illiquids to be deployed more strategically and with greater confidence, based on their contribution to whole-of-fund outcomes rather than constrained by benchmark rules. TPA adopters tend to have higher allocations to alternatives. This allocation is associated with higher performance and governance advantages

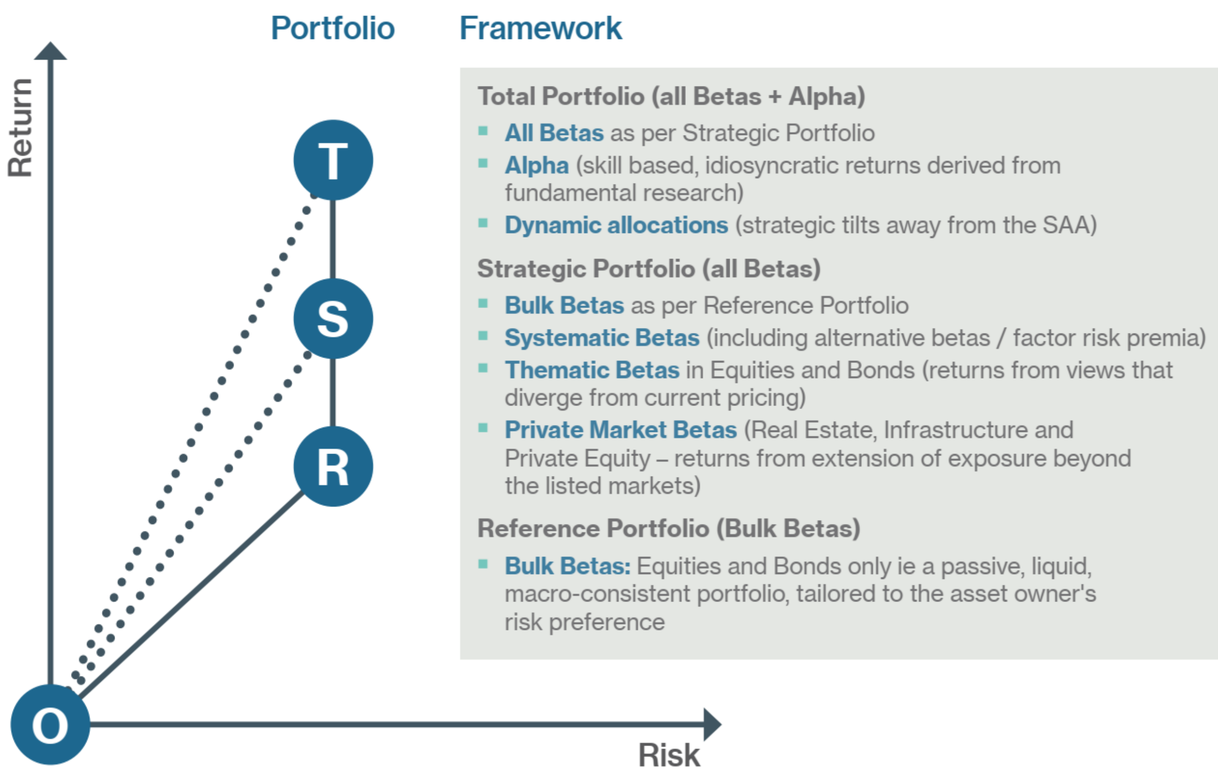
4 TPA helps deliver 3D investing

- **Holistic performance lens:** total portfolio dashboards track financial returns alongside resilience, sustainability and the quality of delivery, enabling more balanced decision-making.
- **Integration of risk, return and impact:** TPA extends the traditional two-dimensional focus of risk and return by embedding sustainability and impact into core investment decisions.
- **Top-down and bottom-up integration:** sustainability is directed centrally through both top-down and bottom-up channels.
- **TPA makes any wider purpose investable:** it enables 3D investing[1] by integrating risk, return and impact within a whole-of-fund framework, where impact is primarily financially motivated but can be also non-financially motivated.

[1] 3D investing, as defined by the Thinking Ahead Institute, is an investment approach that combines risk, return and real-world impact in a single decision-making framework. It moves beyond traditional models by incorporating sustainability, net zero alignment and broader stakeholder outcomes alongside financial performance. For more detail, see 3D framework a game changer

5 TPA delivers better investment outcomes

- **Higher returns**: TPA adopters have enjoyed a 10-year average performance uplift of 1.3% per annum compared to non-TPA peers[2].
- **Mission-aligned investing:** investment decisions are directly tied to the asset owner's purpose, ensuring that the portfolio is always aligned with long-term goals and not just relative benchmarks.
- **Best ideas win:** all investment opportunities compete for capital based on their contribution to total portfolio goals, not on asset class labels or benchmark weights. This maximises the opportunities set, incorporates a risk factor view of underlying return drivers, and includes ideas that may not fit neatly into a single asset class.



[2] 2024 Thinking Ahead Institute Global Asset Owner Peer Study

TPA acts as a gateway to best ideas and innovations

TPA flexibilities support the conditions for better ideas, principles, practices and innovations to flourish. Especially in the face of complex system risks like geo-politics and climate change. As well as fast-changing conditions from markets and stakeholders.

The TPA gateway opens up multiple areas of developing opportunity. The table below illustrates four of these areas.

Thinking Ahead Peer Study 'Gateways to Innovations' taken from the Peers strongest propositions for future success

	#2. Risk 2.0 – wider, softer, longer. Use of horizon scanning and super-forecasting* methods using an intelligence stack that looks out longer, wider and more accurately * *super-forecasting is WTW methodology to align top-level experts in group-averaged forecasts*	
#5. Alts-plus proposition. Building more focused strategies in alternative assets through holistic risk budgeting* to optimise the value chain * *WTW Model integrates return & cost drivers to produce net IR data & manager grading*	**#1. TPA Total Portfolio Approach - gateways to innovation**	**#3. 3D Investing.** Transitioning to Systems-Level (3D) Investing through an integrated sustainability proposition using systemic stewardship and tilted allocations* * *WTW has built the Climate Transition Index (CTI) to be the strategic tilt in listed equities*
	#4. Dashboards & scorecards Using multiple comparators and other data to create portfolio quality dashboards and performance quality scorecards * WTW *portfolio quality dashboards act as balanced scorecards to make joined-up allocation decisions*	

Summary

In summary, TPA is not just an evolution in investment thinking; it is a necessary response to today's complex realities.

But adopting TPA is not a plug and play switch. It requires deliberate and measured change across people, systems and governance. In the companion paper, *The TPA Journey: A practical guide to implementing total portfolio approach*, we explore how to make that shift: what the transition involves, where to begin, and how to build a model that fits your organisation's goals, capabilities and context.

For further details or inquiries, contact:
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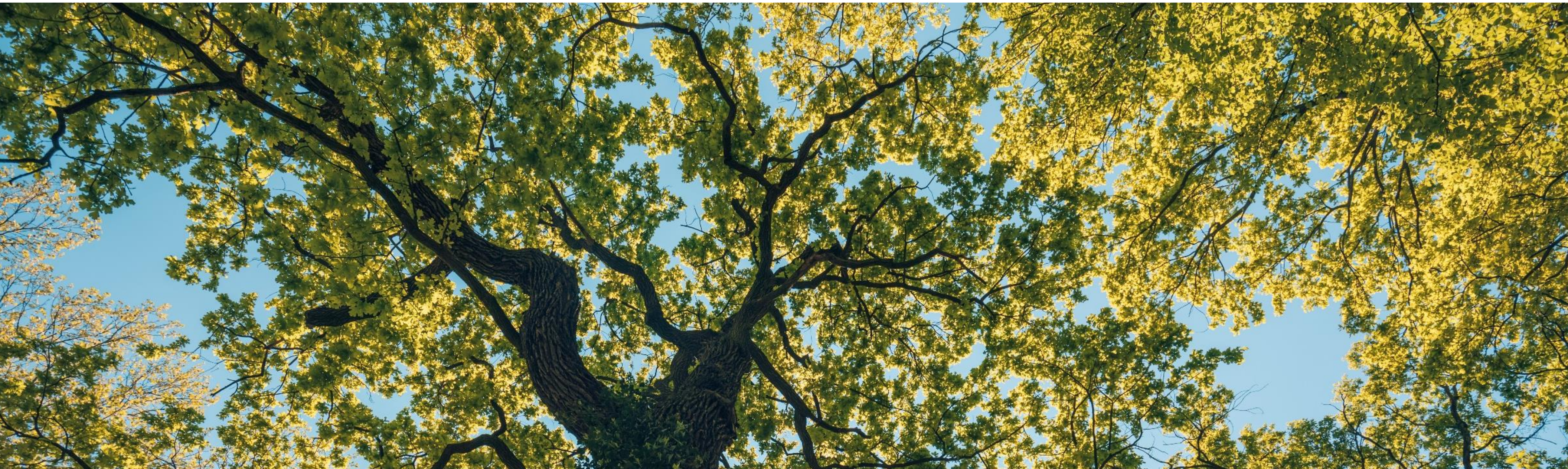

Limitations of reliance and contact details

Limitations of reliance – Thinking Ahead Group

This document has been written by members of the Thinking Ahead Group. Their role is to identify and develop new investment thinking and opportunities not naturally covered under mainstream research. They seek to encourage new ways of seeing the investment environment in ways that add value to our clients.

The contents of individual documents are therefore more likely to be the opinions of the respective authors rather than representing the formal view of the firm.

Limitations of reliance – WTW

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About the Thinking Ahead Institute

The Thinking Ahead Institute brings together major investment organisations to advance its mission: develop bold, innovative investment solutions that create long-term value. Established in January 2015, we're a global not-for-profit network comprising asset owners, investment managers and service providers. Arising out of WTW's Thinking Ahead Group, formed in 2002, our investment specialists bring over 150 years of combined experience from leading organisations. We currently have over 50 members with combined responsibility for over US$16 trillion.

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