RPIA Capital Management

From Silos to Strategy: How Foundations Can Adopt a TPA Mindset

April 2026

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Executive Summary

- In a more uncertain market environment, foundations may benefit from looking beyond separate asset-class buckets and approaching portfolio decisions with greater emphasis on an integrated approach that can support greater resilience and adaptability than a traditional strategic asset allocation framework.
- A Total Portfolio Approach is not just for large institutions. Smaller and resource-constrained foundations can still benefit from building a "one portfolio" culture, simplifying governance around total-fund outcomes, and giving decision-makers flexibility within clear risk and liquidity guardrails.
- Looking only at asset allocation can create a limited view of diversification. A stronger risk framework should also consider underlying macroeconomic exposures, such as growth and inflation, so foundations can better identify hidden concentrations and understand how the portfolio may behave across different scenarios.

Uncertainty and volatility are clearly hallmarks of the 2025 and early 2026 macroeconomic and market environment. As we consider the balance of the year, the combination of geopolitics, digitalization, deglobalization, government debt dynamics, decarbonization, concentration, and elevated market valuations suggests that these characteristics are unlikely to be any less important. Stated differently, the relative calm that guided the last generation of economic and portfolio management is being rewritten. In this brave new world, what is likely to matter more is not prediction but rather preparation.

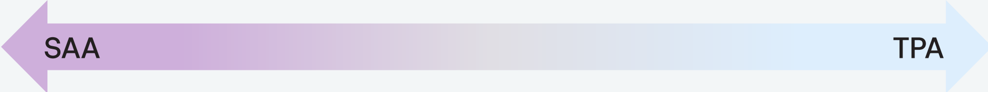
In this regard, the concepts of integration, resilience, and adaptability will be especially important to those charged with portfolio management. Integration means thinking about the portfolio holistically, rather than managing individual asset class mandates or strategies in isolation. Resilience requires an understanding of how the overall portfolio is likely to respond to the surprises that are sure to lie ahead. Adaptability encompasses the ability to quickly consider and implement whether additional diversification might be beneficial or whether better returns can be captured elsewhere after a period of volatility.

It is this likelihood of a tougher, more complex market regime and the need for better, less constrained decision-making that has caused a growing number of institutional investors to transition from a traditional Strategic Asset Allocation framework (SAA) toward the Total Portfolio Approach (TPA) that grew out of the active management (and Reference Portfolio) framework introduced by CPP Investments several decades ago. Another contributing factor to this change was the disappointing performance of many large portfolios that had appeared to be well diversified at the start of the Global Financial Crisis.[1]

[1] In addition to a limited view of diversification, there are other weaknesses of the SAA approach. For example, how do you assign investments that don't fit into pre-defined buckets? The SAA approach also often means different asset class teams at an institution acting independently – unlikely to be optimal.

This is a topic that we have written about previously,[2] using the diagram below to illustrate the clear differences between the SAA model and the TPA model, as well as the expected impact on decision-making throughout the investment process. We suggested that the TPA model is intended to provide the advisor and/or investment team with greater flexibility to dynamically manage asset allocation (regardless of market conditions) while simultaneously reinforcing a focus on the asset owner's primary return and risk objectives and their ability to meet real-world obligations.

The Spectrum of Portfolio Construction Approaches



Performance assessed vs.	Benchmarks	Fund goals
Success measured by:	Relative value added	Total fund return
Opportunities for investment defined by:	Asset classes	Contribution to total portfolio outcome
Diversification principally via:	Asset classes	Risk factors
Asset allocation determined by a:	Board-centric process	CIO-centric process
Frequency of change:	Infrequent, calendar meeting based	Continuously monitored, changes made in real time
Portfolio implemented by:	Multiple teams competing for capital	One team collaborating together

Source: Thinking Ahead Institute.

To date, the adoption of a TPA framework has occurred more often with larger organizations – both in terms of the size of the portfolio and the size of the team. Moreover, the way TPA has been adopted has varied across these institutions, illustrating the fact that TPA is not a monolithic methodology that can be applied off the shelf. Rather, it has both "hard" and "soft" elements that create a spectrum of implementation variations.

We believe smaller pools of capital that have limited resources can also benefit from incorporating some of the key elements of this approach into their investment process. However, we recognize that smaller institutions often tend to be resource-constrained, making the path to TPA less clear.

In what follows, we aim to provide practical suggestions on how resource-constrained institutions can draw on a TPA mindset and potentially improve portfolio outcomes.[3] We do this by considering three dimensions of TPA – culture, governance, and risk management.

[2] W. Moriarty, "Overcoming the Complexity Bias: Building a Portfolio that can Withstand the Test of Time", RP Investment Advisors, October 2024.

[3] Some studies suggest that TPA adopters have generally earned better returns per unit of risk (Mercer, 2026). Thinking Ahead Institute's data shows that funds adopting TPA have achieved a performance edge of 1.3% per annum over 10 years, with modeling suggesting an annual advantage ranging from 0.5% to 1.5%.

Pillar 1: Building a “One Portfolio” Culture

Large institutional investors often claim that a key to success with TPA is an organizational culture built on long-termism and agility, with all employees sharing a clear focus: delivering strong real returns for the portfolio over the long-term. At its essence, TPA is really a behavioral system: how people think, make decisions, and are held accountable. That is where smaller institutions can have an advantage – they can shape culture more directly, without layers of bureaucracy.

For smaller, resource-constrained plans, fostering a culture aligned with TPA starts with reinforcing a consistent “one portfolio” mindset. This means ensuring that all decisions – regardless of size – are viewed through the lens of their impact on total fund outcomes, rather than in isolation. A practical way to embed this is by normalizing explicit trade-off thinking: every investment decision should be accompanied by a clear articulation of what is being funded, and how it affects overall risk and return. Over time, this encourages more disciplined, portfolio-aware decision-making without requiring additional resources or complex tools.

Equally important is creating an environment that supports adaptability and sound judgment. Smaller teams should foster an environment that reinforces the ability to revisit and change allocations as conditions evolve, and views flexibility as a strength rather than a weakness. This goes hand-in-hand with encouraging intellectual humility, regularly questioning assumptions and acknowledging uncertainty, as well as promoting diversity of thought, even within a small team or through external perspectives. Finally, emphasizing repeatable decision-making processes over individual conviction helps ensure that outcomes are driven by a consistent framework, not personalities. Together, these cultural shifts are practical, low-cost ways to better align behavior with TPA principles.

Pillar 2: Reviewing the Governance Framework

Adopting TPA means a shift in the governance mindset from rigid asset and risk allocation policies to a more integrated view of the total portfolio. In this new view, each investment decision is considered in terms of its impact on the total fund return, risk, and liquidity as opposed to its fit within a particular asset segment. Below, we discuss four areas for smaller plans to consider in this regard:

1. Board Engagement
2. Reference Portfolio Framework
3. Delegation of Investment Authority
4. Outcome-Based Monitoring

1. Board Engagement

Adopting TPA begins with a shift in what the Board prioritizes to monitor. For smaller, resource-constrained plans, this means moving away from detailed allocation constraints and toward a primary focus on total fund objectives, risk appetite, and liquidity needs (rather than approving rigid asset class weights or narrow policy ranges that are usually based on a set of capital markets assumptions, Boards can enable more integrated decision-making.

By prioritizing clear portfolio outcomes – such as a real return target and an acceptable drawdown – and allowing increased flexibility in how those outcomes are achieved as long as concentration and liquidity constraints are observed), plans can reduce governance complexity while reinforcing a total portfolio mindset.

2. Reference Portfolio Framework

Helpful here is for portfolio owners to adopt a simple Reference Portfolio type benchmark (i.e., a 60/40 or 70/30 mix of equity and bonds – government, corporate, and inflation-indexed) that is consistent with the fund's longer-term return and risk objectives. In doing so, you should also consider ensuring that it is representative of the actual portfolio by mapping private investments and hedge funds into the public markets equivalents in the Reference Portfolio. Utilizing this simple Reference Portfolio framework can provide valuable insights into the value added at the total portfolio level from diversification, illiquidity, tactical shifts, etc.

3. Delegation of Investment Authority

Another key step is structured delegation of investment authority. TPA requires that someone – often a single experienced CIO, investment lead, or skillful external advisor in smaller plans – has the ability to act on opportunities across the entire portfolio. Boards can support this by granting discretion within a clearly defined framework that focuses on total fund outcomes within risk, liquidity, and concentration constraints. This avoids the need for frequent Board approvals on individual decisions, which can otherwise lead to static, siloed portfolios, and instead enables more timely and holistic portfolio adjustments.

4. Outcome-Based Monitoring

Finally, governance practices should align monitoring and accountability with total portfolio outcomes rather than component-level results. For many smaller plans, reporting and evaluation currently emphasize asset class or manager-specific performance, which can reinforce siloed thinking. A TPA-aligned mindset shifts the main focus to whether changes made improve the likelihood of the overall portfolio meeting its return objectives within the defined risk and liquidity parameters. This requires a disciplined emphasis on likely total fund outcomes in Board reporting and discussions, helping ensure that all decisions are evaluated in the context that matters most.

Pillar 3: Expanding the Risk Lens

We believe another key step should be the adoption of an enhanced set of risk metrics that specifically focus on the underlying macroeconomic factors most important to the plan's risk and return profile. This should provide meaningful insight for more regularly reassessing a portfolio's exposures and asset mix and determining possible adjustments.

This step reflects the reality that as more assets are added to a portfolio, asset-specific (idiosyncratic) risk tends to be diversified away, leaving exposure primarily to broad and persistent macroeconomic drivers of return (i.e., growth, inflation, interest rates, credit, currency, etc.).

In fact, most asset class returns can be viewed as a function of a varying mixture of these underlying factors. Incorporating this perspective can assist asset owners to better understand risk and how their portfolios are likely to perform under different economic regimes and scenarios.[4] In the appendix, we provide an illustration of how apparently well-diversified portfolios can actually have significant macro factor concentrations.

For smaller, resource-constrained institutions, adopting a factor lens will require some level of quantitative modeling. A practical starting point is to focus on a small set of key macro factors – such as growth, inflation, real interest rates, and credit – and develop a simple, approximate mapping of how the portfolio and its major components are exposed to these drivers. This can often be done using existing knowledge of asset class behavior, but may be better approximated with support from a plan's key external advisor. Nevertheless, even a high-level view (for example, recognizing that equities and private equity are largely growth-sensitive, while bonds are exposed to inflation and real interest rates) can meaningfully improve decision-making. The goal is not precision, but better directional insight into what is truly driving portfolio risk and return.

From a governance and decision-making perspective, the emphasis should be on embedding factor awareness into regular discussions, instead of producing detailed reporting. Investment reviews can incorporate simple questions such as: how has the portfolio's exposure to key factors changed, and how might it perform under different economic scenarios. Scenario analysis – such as considering the impact of a growth slowdown or an inflation or supply shock – can be implemented in a straightforward, qualitative way and still provide a valuable perspective. Over time, this approach helps shift the mindset from viewing diversification in terms of asset classes to understanding underlying economic exposures, enabling more informed and agile portfolio adjustments without adding significant operational burden.

Admittedly, introducing a factor-based framework is easier said than done, especially for smaller pools of capital that have limited resources. However, this is an area where a smaller fund's external advisors should be called upon to help. Moreover, there are a number of useful articles[5] that can provide meaningful guidance to smaller teams wishing to implement this type of framework into their management process.

In conclusion, traditional SAA introduces a meaningful portfolio constraint; it encourages the institutional investor to stay within predefined asset class benchmarks and risk boxes despite the unraveling of the postwar order, areas of stretched asset valuations and increased uncertainty regarding the economy's future path. Incorporating key elements of TPA can help remove this constraint, making portfolio construction and the management of both larger and smaller pools of capital more resilient, adaptable, and prepared for changing economic regimes.

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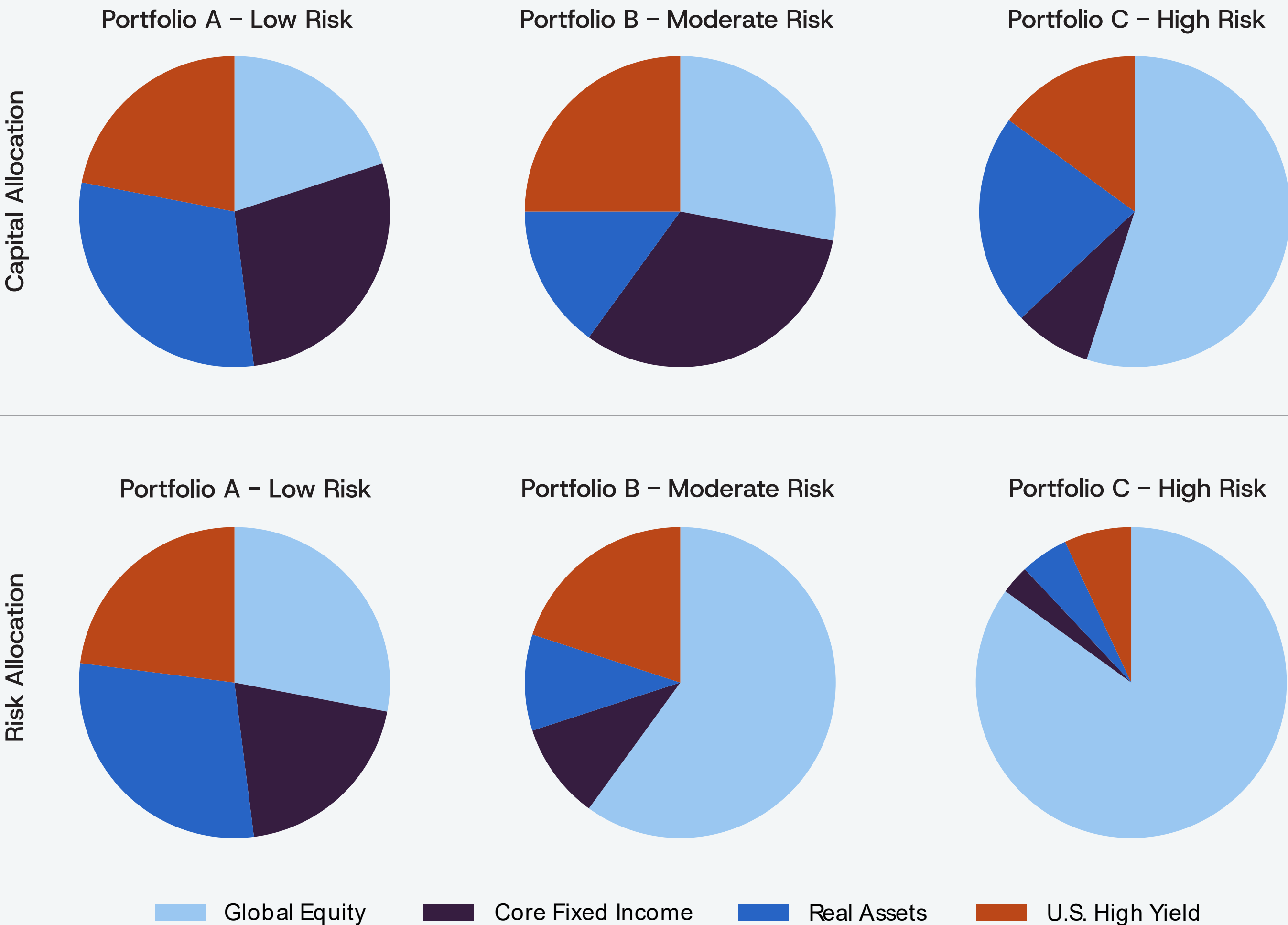
[4]This framework is quite helpful in terms of understanding the contribution of 'alternative' assets and strategies in any given portfolio. More specifically, hedge funds, private investments and real assets are not viewed as distinct asset classes but rather as mixtures of exposures to the same underlying factors (i.e., growth, rates, credit, inflation, etc.) as publicly traded equities, fixed income, etc. This approach also highlights the benefit of combining public and private assets in constructing a portfolio's building blocks.

[5]For example, Gilles Gharios and Darrel Yawitch, "How to Calculate the Beta of a Portfolio to a Factor", Man Institute, September 2021. Mark Anson, "Thinking Outside the Benchmark: Part II", Journal of Portfolio Management, November 2024. Robert Bass, Scott Gladstone and Andrew Ang, "Total Portfolio Factor, Not Just Asset Allocation". Journal of Portfolio Management, Special Issue 2017.

Appendix

Using a very basic approach, two exhibits (taken from a note from Wilshire Associates[6]) should make this concept clearer. Exhibit A shows the Capital (top row) and Risk (bottom row) allocations of three portfolios (low risk, moderate risk, and higher risk). Based on an initial impression, the portfolios appear reasonably diversified when viewed from an asset allocation perspective, but less so from a risk perspective.

Exhibit A:
Portfolios That Appear Diversified May Still Contain Meaningful Risk Concentrations

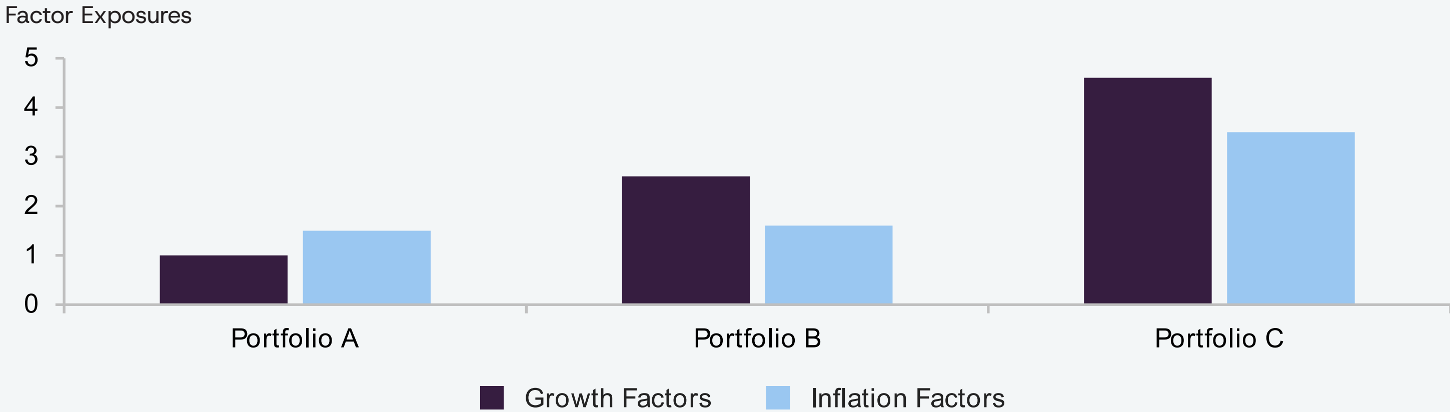


Source: Wilshire Consulting.

[6]Steven J. Foresti, Michael Rush, Russell J. Walker, "A Practical Approach to Factor-Based Asset Allocation", Wilshire Associates Inc., August 2014.

Exhibit B re-examines portfolio exposures using a simple two-factor model based on growth (using changes in real yields and option-adjusted high-yield credit spreads as a proxy) and inflation (the change in breakeven inflation rates). Even this simple approach can be helpful in identifying risk concentrations that are not readily apparent in the two prior sets of pie charts. Portfolio B, for example, which appears quite balanced across asset classes, also appears quite vulnerable to periods of slowing or contracting growth, while Portfolio C appears to have much greater sensitivity to inflation surprises. In both these cases, a deeper analysis of the underlying asset mix and associated macro risk factor exposures would seem warranted, especially considering the current environment of heightened geopolitical risk.

Exhibit B:
Portfolios That Appear Diversified May Still Have Concentrated Macro Factor Exposures



Source: Wilshire Consulting.

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