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Portfolio Design as Gesamtkunstwerk: The Total Portfolio Approach

Adoption of the Total Portfolio Approach (TPA) is set to grow. In part, this increasing popularity is in response to a particular set of macro circumstances of a new investment regime that implies lower returns and less diversification. But this growth is also for reasons exogenous to the wants of investors, resulting from a shift in the locus of capital raising, with a structurally greater role for private markets.

At its heart, TPA is a holistic approach to allocation that rejects the primacy of the asset class or public versus private split as the basis for allocation. Instead, it recasts the task of an allocator to being the curator of return streams.

There are, however, significant hurdles to adoption: a change in governance structure, change in organization and career risk for those making the transition.

We discuss what this state means for investment praxis. The theoretically pure approach might be hard to adopt, hence other approaches involve starting from constraints (especially liquidity), then making assumptions about what an attractive mix of return streams might be. We show an example of these approaches, which uses simulations to find an attractive resulting allocation.

TPA likely allows for the greater adoption of illiquid assets, factors and active return streams.

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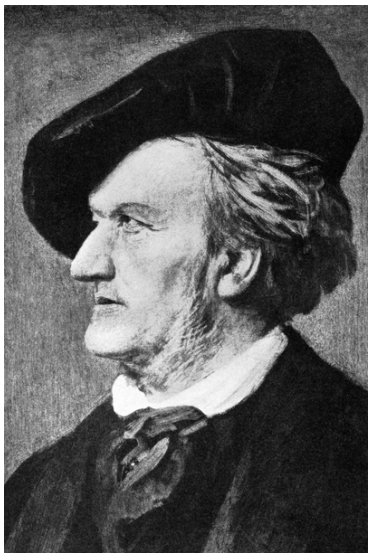
Rejecting the primacy of the asset class

In our travels around the world to see clients, it is always intriguing when common questions recur. It is especially interesting when the questions are about topics that were not referenced in your author's presentation deck, and hence were not led by the presenter. One such topic is the Total Portfolio Approach (TPA). Questions on TPA have been raised in our meetings with investors in Japan, the Middle East, North America and Europe. The idea is hardly new — we remember talking about it to clients a decade ago, and it has never gone away. We have long looked favorably on the approach, but we also recognize that it comes with caveats. For some investors, these can be significant objections and TPA's efficacy, or at least the need for it, is also dependent on macro conditions. It is with this backdrop that the topic is back on the list of subjects that investors want to talk about. More importantly, there have been new converts to the approach, so more assets are being managed in this way.

Adopting TPA is part of seeing that the real goal of investing is to meet obligations in the real world, i.e., seeing inflation as the benchmark. If one thinks that one's benchmark is a set of asset-class return indices with some weighting attached to them, then one will never, and should never, adopt TPA. However, we would suggest that in most cases such a benchmark is misguided. The claim might sound cavalier, but that is the point. The question of whether to adopt TPA, implicitly at least, goes to the heart of the question of what investment management is for.

This note will discuss in detail what TPA means, but fundamentally, and to put it in the language of a manifesto, TPA is about rejecting the primacy of the asset class. Indeed, it questions whether an asset class is even a "thing." In its holistic nature, we would suggest that the TPA amounts to nothing less than a Gestamtkunstwerk for investing. It might sound presumptuous to apply the language of Parsifal to something as pedestrian and low brow as asset allocation, but the immersive nature of TPA (at least in its ideal form) and the necessity of arriving at a synthesis of investment approaches suggest to us that the analogy is apt. Just as Wagner tried to achieve the total work of art, using TPA to direct allocation is an attempt to get close to the total possibility of what investing can achieve.

DISPLAY 1: CAN THE CONCEPT OF GESAMTKUNSTWERK BE APPLIED TO INVESTING?



Source: Getty Images

In this note, we attempt to lay out what TPA is as well as the (multiple) reasons why it is back as a topic and is set to grow in importance. We give some examples of what this shift means for allocations and also the problems with the approach. These represent real hurdles for many investors so we also discuss approaches that incorporate elements of a TPA but don't adopt it wholesale. Such approaches, while perhaps not offering all the advantages of TPA, may be more acceptable for some investors.

What is TPA? And the theoretical case for it.

At heart, TPA takes a holistic approach to risk and investment exposures in a portfolio. That is to say, it looks across public and private assets, alpha and beta return streams, and asset classes. This nature sets it apart from traditional approaches to asset allocation that tend to view allocations to asset classes as distinct buckets, and that often do not explicitly think about common factor risks across those asset classes.

Thus, fundamentally TPA is about removing silos from asset allocation. It also changes the metric by which risk is measured. The relevant measure of risk for TPA is the volatility of the total portfolio and a metric of required liquidity. A traditional approach to asset allocation, by contrast, also cares about active risk and the deviation from an asset class "passive" benchmark that is introduced by any "active" allocation. In its purest form, TPA rejects the notion of active risk as being relevant, hence the need for inverted commas around terms such as "active" and "passive."

TPA in its pure form recognizes, or at least allows for the possibility, that the alpha-beta dividing line is dynamic and not fixed. Indeed, TPA recognizes that this should properly be thought of not as a dichotomy but as a spectrum encompassing active, factor strategies and passive approaches.

Thinking about investing this way, in theory, allows for more flexibility. So, in a macro state of lower returns and harder-to-achieve diversification (which is what we think is the prospect today), it allows an investor to partition and allocate risk more efficiently. This requires an ability to view risk across asset classes, across public and private holdings, and across passive and active allocations. There are practical challenges in doing this, but more efficient use of risk is an essential benefit.

As part of the route to achieving superior diversification, we would argue that TPA makes it easier to benefit from time-horizon diversification. This is the idea that modes of investing with very different alpha decay times offer a route to diversification that is different from the classic idea of simply finding return streams that have a low correlation.[1]

TPA turns the allocator into a "curator of returns streams." We think this phrase is appropriate, as it does not assume an inherent primacy of a given set of return streams. Of course, in practice, there will be massively different scales of capacity and liquidity between different assets, but that aspect is tackled in the setting of liquidity requirements or other constraints.

Credo

There is a set of either supporting beliefs implicit in the adoption of TPA or helpful a priori positions that enable its adoption. As this is really a foundational issue in the allocation of assets, it is hard to avoid outlining it in terms of "beliefs." In a language akin to that adopted at Nicea, we could phrase this along the lines of:

- A belief that, ultimately, the role of the asset allocator is to bring together diverse return streams in a way that is not encumbered by silos of asset class or asset type that have largely been invented by the investment industry
- A rejection of market-based multi asset benchmarks (and ideally a lack of belief in the concept of a risk-free asset, though that is not, strictly speaking, essential for TPA)
- A multifaceted case for private assets, recognizing the structural shift in the locus of capital raising, the need for alternative sources of return and diversification, and the idea that the dividing line between public and private is at the very least fluid, and at best illusory
- Belief that factors have a role to play in asset allocation that puts them on a similar level as asset classes
- There is also a need to fundamentally consider how to weight things, not necessarily based on rules of thumb of the last 40 years or peer-group analysis. We have written elsewhere on the question of how to weight financial assets.[2]

[1] Global Quantitative Strategy - Time horizons in Finance: Bayesian trees for market allocation, February 16, 2016

[2] Too Much Certainty is a Terrible Thing: Benchmarks and the Meaning of Risk

TPA – why now?

The theoretical case for TPA is fair enough, but why does it appear to be making a recurrence now? If TPA means shifts such as seeking a broader set of diversifying assets and allocating more to active (including long-short active), then many such approaches would have suffered compared with a very simple 60:40 portfolio since 1980. We are strong believers in Occam's razor, and hence are highly suspicious of complexity for the sake of it, so why adopt a potentially more complex system if recent performance might not have been better, and in fact might have been considerably worse?

We suggest that two very different forces at work imply TPA is needed more now, one driven by investors and the other more macro:

- The realization that achieving a given level of real return and achieving diversification is harder in a new investment paradigm

- A shift in how capital is raised in the contemporary economy. Public equity and credit are no longer privileged. Hence, a need to think about risk, exposures and allocation across public and private

This is not the forum to lay out why we expect long-run returns to be lower — see our case for this outlined in Instability: Debt, Inflation and AI's Impact on Investing. In short, this is because of the confluence of high multiples across asset classes, lower growth rates (demographics, deglobalization only partly offset by AI), and higher inflation (debt, deglobalization again, climate). Likewise, the move for a greater role of private assets stems from structural shifts that have dislodged public markets and bank credit from their formerly pre-eminent position. Unless buybacks are made illegal, initial public offerings made easier and banks allowed to take a lot more risk, this process will continue. Yet, all the while, corporations need to raise capital, hence a growing natural allocation to private assets.

To these macro considerations, we could add the topic of how investment decisions are made. The driving forces of today's market regime – debt, demographics, climate/energy transition and AI — cut across different asset classes as well as public and private markets. They require dialogue and coordination across different teams and are hard to address if investment process is siloed into different asset classes.

At the same time, these changes are enabled by, and, in some cases accelerated by, two long-running trends within the asset management industry itself. One is the rapid growth of AUM in smart-beta ETFs, which enable cheap, liquid and easy addition of factor exposures while also facilitating better factor risk measurement and management. The second trend is advances in, and wider adoption of, investment technology such as sophisticated risk-management tools, liquidity forecasting, advanced macroeconomic scenario modelling and machine learning and other AI tools.

The implementation difficulties of full TPA (which we discuss below) mean that in practice, partial adoptions or halfway houses will likely be very prevalent. As one example, Willis Towers Watson (WTW) and Thinking Ahead Institute define TPA not as one specific approach, but in the language of a spectrum. They suggest a taxonomy based on five key pillars of governance, investment, people, risk and sustainability.[3] They then provide 16 markers under each of these categories in the spectrum ranging from pure strategic asset allocation (SAA) of zero to pure TPA of five. Very few organizations score five on most of these categories, thus the tool can be viewed as a roadmap moving toward a more encompassing version of TPA. Different organizations might also choose to implement more or fewer of the TPA principles across different pillars based on their own unique organization structures and needs. According to WTW, in 2024 the TPA adoption score of global institutions included in its survey was 2.5, and their stated desired level was 3.6.[4]

The key differences between SAA and the TPA approach that WTW delineates are that a pure SAA approach tends to be siloed across asset classes and benchmark-driven, with investment changes made infrequently and only basic considerations of liquidity incorporated in the investment process. By contrast, TPA is more goal-driven and aligned to total fund outcomes, the investment focus is on contribution to total portfolio outcomes, portfolios are monitored in real time and asset-allocation changes are dynamic. There is a full integration of liquid and illiquid assets, and tail risks are explicitly measured.

[3] For more details please see: https://www.thinkingaheadinstitute.org/content/uploads/2025/10/2025-TPA-Report-from-Vision-to-Execution.pdf

[4] IBID

A brief history of TPA

The Total Portfolio Approach has not been a popular academic research topic. Until very recently, information about its adoption was most likely to be found in whitepapers and strategy documents produced by asset owners in Canada, Australia and the Netherlands who were the early advocates and adopters of the TPA approach (see, for example ATP, 2021). Perhaps the most comprehensive academic paper discussing TPA principles is Redouane and Lee (2025). The authors provide a detailed history of SAA's intellectual lineage from Graham to Markowitz to Sharpe and Swensen, and they highlight how the static portfolio model of discrete asset-class silos is increasingly unsuited to the evolving market regime characterized by growing market complexity, more-frequent regime shifts, liquidity constraints driven by the rise of private markets, and path-dependency risks. The authors define TPA not as a prescriptive allocation but as a "mindset of preparedness," which is centered on four key principles:

- **Preparedness rather than planning**—anticipating multiple states of the world rather than fixing exposures.
- **Holistic portfolio management**—evaluating each investment by its total-portfolio contribution rather than its performance within a silo.
- **Intertemporal hedging**—positioning the portfolio for evolving risk premia and macroeconomic states.
- **Dynamic trade-offs**—maintaining optionality, managing illiquidity and adjusting liquid exposures as private portfolios evolve

As a result, Redouane and Lee argue that governance must shift from fixed allocation targets to exposure-based guardrails, allowing investments teams discretion on their decisions but within certain risk limits. Performance evaluation should also become multi-dimensional, as no single benchmark adequately captures TPA's objectives. Incentives must focus on rewarding total fund outcomes, and culture must support cross-asset collaboration and shared accountability. Finally, the paper presents a detailed analytical toolkit required to operationalize TPA. It includes factor-based portfolio construction, reverse-optimization techniques, regime-aware asset allocation and liquidity-aware rebalancing models, contrasting them with the SAA approach.

Gilmore, Stephen, and Joseph Simonian (2025) echoes the key principles expressed by Redouane and Lee (2025): the importance in breaking down asset-class silos and viewing the portfolio holistically with a one-team approach, aligning incentives with total-fund outcomes, and establishing a unified technological infrastructure with consistent risk measurement and modeling standards as well as a shared knowledge base. The unique contributions of the paper are practical considerations and examples of how TPA adoption can enable a hierarchical approach to goal setting, which in addition to desired risk and return objectives would also incorporate considerations of overall portfolio liquidity, managing tail risks and maximum drawdown, and aligning sustainability goals. The authors also argue that TPA naturally aligns with factor-based portfolio construction. They discuss practical considerations of using elastic net regularization as well as machine-learning methods to select the most parsimonious but still economically significant set of factors.

Meanwhile, several earlier academic papers focused only on one or several aspects of TPA, such as risk modeling or investment frameworks. For example, Anson (2024) shows how ESG implementation presents a challenge for investing in siloed asset-allocation buckets, and how successful implementation requires viewing the total portfolio as a single entity to ensure alignment of objectives. To do this, the paper proposes breaking down each investment into key economic drivers and evaluating the overall impact of each investment on the overall risk and return of the total portfolio. Bass, Gladstone and Ang (2017) demonstrated how portfolios can be viewed through a lens of factor exposures rather than asset-class allocations.

Outside of academia, the WTW institute and CAIA association have tracked the evolution of SAA and the progress of TPA adoption for many years, and regularly produce research compendiums in collaboration with asset owner CIOs. Their most recent study, *From Vision to Execution: How Investors Are Operationalizing the Total Portfolio Approach*, is a detailed examination of how large institutional investors are transitioning from SAA to TPA, drawing on interviews and inputs of 12 large asset-management companies. It includes discussion of theoretical underpinnings of TPA but also illustrates it with observed organizational practice, implementation challenges and measurable portfolio effects. The authors stressed governance and culture as the key foundations of TPA, requiring explicit delegation, redefined accountabilities and organizational alignment on objectives and risk management. They map the evolution of TPA adoption through stages of Activation, Starter TPA, Becoming More Prescriptive and One Fund integration, and they include a detailed TPA taxonomy for each stage (we discuss this in more

detail later). Finally, the report provides evidence for a key motivator for TPA adoption – improved performance. According to their research, TPA adopters have outperformed SAA peers by on average 1.3% per year.

One common theme emerging across different research papers is that there is no single TPA approach with prescriptive rules. Instead, it should be viewed as a spectrum of adoption or a mindset that each organization will have to adapt based on its unique needs.

Challenges of TPA

We are happy to extol the virtues of TPA. We think that the theoretical case for TPA, the particular set of macro circumstances that investors face today, and the need to think across public and private markets all align to point in its favor. However, there are also significant challenges in adopting TPA, primarily around questions of governance, organization and the definition of risk.

In a pure TPA construct, the key expression of risk is through the design of a portfolio with a broad range of return streams that, in aggregate, offer an attractive return and risk. However, this could involve very different kinds of return streams, and with different weights, than a traditional allocation. Any change of this significance necessarily involves career risk for those driving the investment decisions.

An important aspect of TPA is rejecting (or at least downplaying) traditional benchmarks and definitions of "active risk." As a result, TPA can lead to large deviations from the benchmark. This means comparisons with other funds that do not have such large deviations might lead to questions about choices that management has made if this gap is not favorable.

TPA brings with it an organizational challenge. In many investment houses that follow an orthodox approach to investing, investment teams tend to be grouped by asset class; those responsible for "alternative" investments may be separated from those investing in "traditional" assets. It is far from clear that this is the best way to arrange investment functions under a TPA. There may be different ways to group investment activities: for example, a certain active, fundamental approach might be grouped together whether that applied to equities, fixed income or private assets.

Challenging the organizational structure in turn raises the question of what skill sets are needed and the extent to which these may differ from the staffing needs and experience under more traditional approaches. This could be controversial, to say the least.

Prior attempts to switch to different allocation approaches, for example the push for cross-asset risk premia in the early 2010s, suffered because passive cap-weighted indices yielded such strong returns and inflation was quiescent. The idea was theoretically attractive but ultimately led to underperformance compared with simpler traditional approaches. There is always a danger in any move of this nature that it may fail to deliver an advantage. However, we think that the case for low returns and diminished diversification is strong. Moreover, the shift in the pattern of capital raising demands a response that allows the efficient incorporation of private with public assets.

Ultimately, the biggest challenge in adopting TPA is that it constitutes a change in governance, which brings agency risk and hence requires a very clear (and long-term) alignment between the ultimate owners of the assets and their managers.

We like to end a section on the challenges of TPA by pointing out that, despite the challenges, sticking with a traditional approach to investing is also risky. With all the evidence that returns in the future may be constrained, the experience of 2022 ably demonstrating that long-duration bonds may fail as a diversifier of equity risk, and the patent need to incorporate a broader range of private assets in investing all imply that there are, in fact, governance problems in sticking with traditional approaches.

Toward an implementation of TPA

Given this background, what does it mean for investment praxis? In theory, the approach would be to explicitly lay out one's constraints at the beginning of the process. Liquidity would probably be the primary constraint, but there could be others, including seeking diversification across what drives return streams (risk premia, mean-reversion, active skill, etc.) rather than just diversification couched in the language of the covariance matrix. Other constraints might be on capacity and avoiding "corner solutions," etc. Notably absent from these constraints would be an a priori dictate on asset-class weights. Given a comprehensive set of constraints and set of beliefs in terms of return, variance and covariance, then in theory an optimizer does the rest. This would be the implementation closest to the spirit of the ultimate role of the portfolio manager being the curator of return streams, with the question of whether these individual return streams are asset classes, factors or active strategies being pushed down to a secondary level.

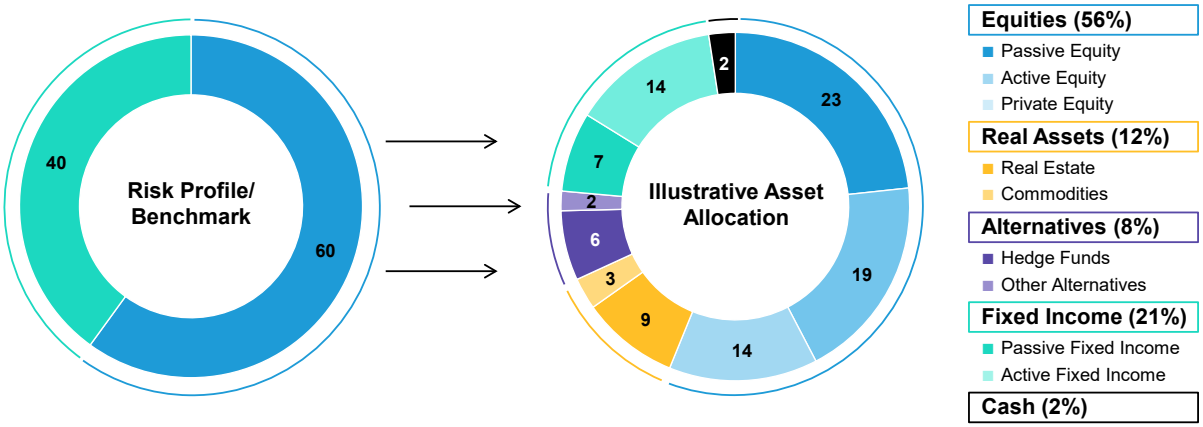
However, in practice this is hard to do. This author, for one, has never been a big believer in optimizers anyway, at very least because of a lack of confidence in how well returns and risk can be forecasted. Not to mention doing so in the context of a new macro regime outside the bounds of the last 40 years, and probably the last 80 years. It is especially hard to have confidence in such an approach when it involves asset classes or return streams that do not have a long history, and a lack of clarity around their joint behavior in previously untested conditions.

So instead, a more practical approach is to start with the set of constraints, but then to make assumptions about what exposures are beneficial, acting in the spirit of the "curating of return stream" model, i.e., being agnostic to public-private distinctions (subject to a liquidity constraint) and seeking a result that allocates across alpha, beta and factors to achieve a diversity of the type of return. Starting from this assumed position, one can simulate portfolios locally similar and decide which one of them is most appropriate.

The starting point, at least for reference, is the current asset allocation used in the industry in practice. Clearly, the reality of this will depend very much on the type of institution, target, liquidity, etc. For working purposes, here we start with the asset allocation of US state pension plans (*Display 2*).

DISPLAY 2: TYPICAL ASSET ALLOCATION OF A PENSION PLAN

PERCENT



Current analysis does not guarantee future results.

Figures may not sum due to rounding.

As of December 31, 2025

Source: AB

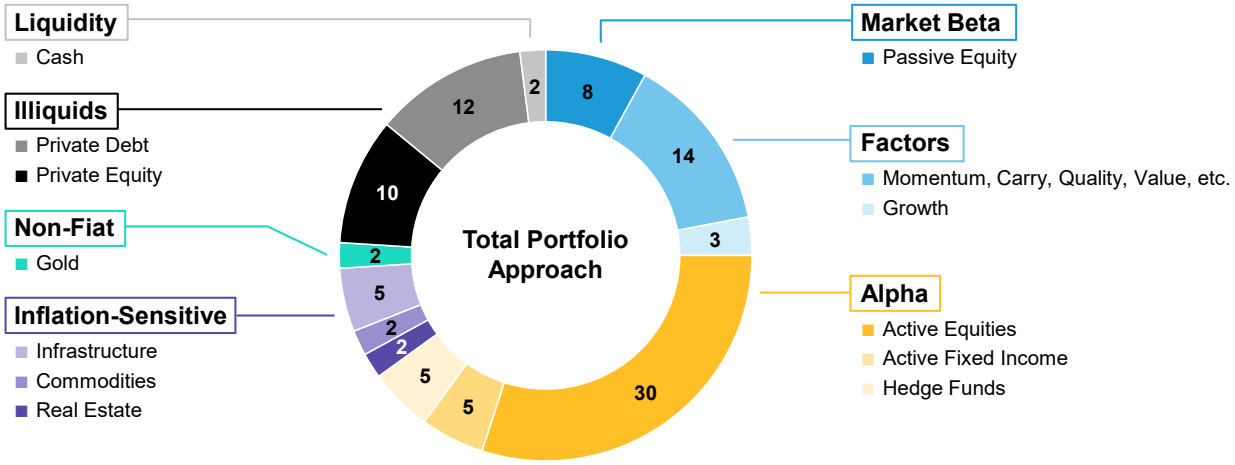
In the first phase, at least, of moving to TPA, it will probably be hard for managers to immediately shift to an asset allocation that is radically different from the one they have adopted historically. Moreover, we assume that the historical portfolio presumably reflected constraints, such as liquidity, that remain binding (though we suspect that the move to a TPA may, in time, lead investors to challenge assumptions about how much liquidity is really needed).

In laying out what a preliminary TPA portfolio might look like, we seek to add explicit weights to active returns, factor returns and a broader range of "alternative" returns — for example explicitly allocating to non-fiat assets. This in part reflects the methodology of TPA, which we think is a given for any investor making such a move, but also reflects choices and beliefs made by us, for example on the likelihood of higher inflation and lower asset-class returns. Specifically, we used long-only equity factors for ease of implementation (e.g., based on MSCI factor definitions). This was used in conjunction with generic private asset assumptions for private equity and private debt, which largely reflect large LBO and direct lending, respectively. Within the alpha allocation, we used the top quartile of global equity and fixed-income managers and a similar approach for top-quartile equity market-neutral managers for hedge funds.

This yields a starting position. We then run a very large number of simulations for allocations that deviate from this starting position in numerous ways. Given our own capital market assumptions for return and risk and bearing in mind a priori constraints, this allows us to find the most attractive allocation. Note that this is not the same as starting with an optimizer, but as a preliminary way to move a portfolio to a TPA it is perhaps more doable for many investors.

DISPLAY 3: HOW THIS MIGHT DIFFER UNDER A TOTAL PORTFOLIO APPROACH

PERCENT



Current analysis does not guarantee future results.

Figures may not sum due to rounding.

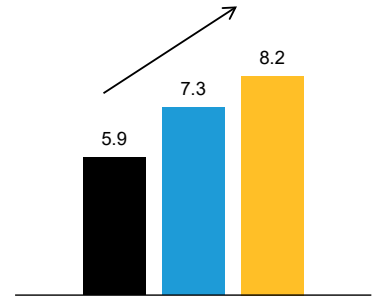
As of December 31, 2025

Source: AB

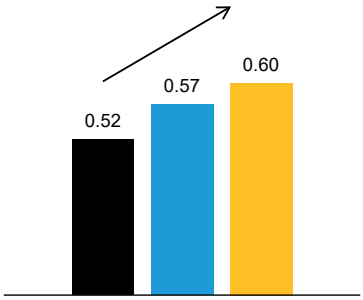
What is the advantage of such a move? In *Display 4* below, we apply our capital-market assumptions, highlighted in the display, to this allocation and compare it with our representative allocation of a typical US state pension plan and a simple 60:40 approach, implying an uplift in prospective return and Sharpe ratio.

DISPLAY 4: EXPECTED RISK AND RETURN ENHANCEMENT

Expected Annual Return (Percent)



Sharpe Ratio



■ Simple 60/40 Benchmark ■ Typical Asset Allocation ■ Example Total Portfolio Approach

Other Characteristics

	Simple 60/40	Typical Allocation	Total Portfolio Approach
Average Income	3.1%	2.8%	3.6%
Annualized Volatility	11.4%	12.8%	13.5%
Beta to Equity	0.66	0.73	0.79
Tail Risk (1% CVaR)	–18.8%	–19.8%	–22.3%
Median Alpha	—	+1.4%	+2.3%

For illustrative purposes only. Data do not represent past performance and are not a promise of actual returns or a range of future results.

CVaR: conditional value-at-risk. Forward-looking forecasts are formed for a 20-year horizon. Returns shown in US-dollar terms and fully hedged. Forecasts assume ability to select top performing active managers. Private market return assumptions as outlined earlier in this presentation. Public market return assumptions are those of the AB Capital Markets Engine.

As of June 30, 2025.

Source: AB

This is by no means the only approach to TPA, and the assumptions and constraints are clearly open to being molded to individual circumstances, not to mention the capital market assumptions.

One of our assertions for why this matters now is that it fits the zeitgeist of a low real-return future. Of course, this view might be wrong. If, instead, we find ourselves in a world where disinflationary pressures reassert themselves, sovereign risk is not priced and equity returns are plentiful, then it is likely that this would give way to a future where the organizational pain of moving to TPA would not be justified by an ability to demonstrate superior risk-adjusted returns.

Compromise positions as steps to TPA

For many readers, we recognize that adopting TPA in full will be hard. This could be because they do not quite accept the idea of a new investment regime. We suspect that for more investors, the constraint is that the required shift in governance and organization is too hard, or will at least take a significant amount of time. Thus, compromise or “halfway house” positions will likely be popular. Some of these are things widely adopted today and do not necessarily have to be seen as a step to TPA.

- Incorporate factor strategies in SAA. This could be done, for example, by taking some allocation from the equity allocation in the case of long-only factors, or from “alternatives” or diversifying strategies in the case of long-short.
- Explicitly incorporate public and private assets in the assessment of risk. Rather than simply allocating a portion of the portfolio to private assets, which can often feel ad hoc, to at least look at the risk exposures across the public and private portions and be willing to use them to inform allocations.
- Incorporate an explicit allocation to alpha as part of SAA (ideally with this alpha being idiosyncratic over and above a separate explicit allocation to factors).
- Recognize that the real benchmark might be inflation rather than a set of market indices.
- Think about risk as the risk of a loss of purchasing power rather than active risk versus a given benchmark (total portfolio risk and metrics of liquidity still clearly matter).

- Encourage cross-team collaboration efforts on major strategic research topics, such as AI, demographics and energy transition, that impact not just a single asset class but the whole portfolio.

- Expand portfolio breadth and introduce more exotic and niche strategies, such as insurance-linked securities, volatility-linked strategies, non-fiat assets or niche hedge-fund and private-debt investments. Often, this is accompanied by greater tolerance of illiquidity, because a more integrated view of the portfolio enables better modeling of required cashflow profiles and a better estimation of drawdown risks and economic exposures. For example, cash-flow needs might be addressed not only through cash of public fixed-income allocations, but by increasing private debt or private-infrastructure exposure in place of private equity.

- Organizations will differ on the speed of adoption as well as scale, with some preferring a radical shift in mindset while others prefer a gradual bottom-up approach over time. The WTW report cited earlier presents a number of real-world examples of how different organizations approach the transition to TPA.[5] For example, it cites an example of TCorp starting from breaking down asset-class silos, introducing a reference portfolio and replacing an asset-class benchmark early in the process. Meanwhile, the report highlights other organizations, such as PSP, SWIB and CPPIB, which adopted a more gradual approach, including steps like introducing dynamic asset allocation, encouraging collaborative research, integrating risk budgets and unifying investment team structures.

Aggregate SAA implications if even some steps towards TPS are taken:

If the case for TPA is supported by both the macro prognosis and shift in the locus of capital raising, then it implies that adoption will rise over time. If we move beyond the case of implementation for an individual investor and think about the aggregate implications, what emergent properties might this engender?

- Greater allocations to private and illiquid assets and those that don't fit neatly into approaches to asset allocation adopted in recent years. This could range from the macro, i.e., positions in non-fiat assets, to the micro, such as active strategies in niche assets (e.g., ownership rights, contractual income and tokenized real assets).

- Increased focus on idiosyncratic alpha rather than alpha relative to a univariate benchmark, the allowance of greater tracking error, as active risk plays a reduced role as a constraint. In theory, this could allow for an easier acceptance of active allocations. We would not go as far as to say that this would lift the active AUM share within asset classes, as the rotation from active to passive within, say, equities is one of the straightest lines in finance; anyway, the idea of looking at allocations with asset-class silos is anathema to TPA. But it could allow for an overall greater explicit allocation to alpha across asset classes (either in the value of making correct SAA decisions, for which there is no possible passive alternative anyway, or in finding opportunities across public and private dividing lines).

- Greater use of factor strategies. This seems self-explanatory.

- We believe that the adoption of TPA leads to a smaller allocation to nominal long-duration government bonds. To be clear, we think this switch needs to happen, anyway. Our previous research made the case that bonds are less likely to be as effective a diversifier of equity risk; we think the risk to inflation is on the upside and climbing in a period of high government debt, making the notion that government debt is in some way "risk free" laughable. That is before one even considers the implications of the rupture in geopolitics. But TPA redoubles this shift. An investor that adopts TPA likely holds one or more of the following views: that a broad range of assets is needed for diversification in the new regime, that a larger allocation to illiquid assets is acceptable and that risk to purchasing power is a major consideration.

An intriguing possibility is that the TPA approach should make it easier to hold long-horizon investments such as the equity value factor, which can experience multiyear underperformance against an equity benchmark, therefore facing significant career risk, increasing the likelihood that the position is sold at exactly the wrong time. Under the TPA approach, by contrast, the investment would be assessed on its long-run contribution to the overall portfolio. And a better view of liquidity profiles across the whole

[5] IBID

portfolio reduces the risk of a fire-sale of private and illiquid assets during periods of market stress, which increases the chance of realizing their illiquidity premium and full return potential over the long term.

DISPLAY 5: ASSETS THAT GAIN AND ASSETS THAT LOSE OUT UNDER A BROAD SHIFT TO TPA

Assets that see growing demand under TPA	Assets that see weakening demand under TPA
Illiquid assets	Nominal long-duration bonds (TPA allows for broader routes to find effective diversification)
Assets that don't fit neatly into traditional buckets: non-fiat, contract-based, etc.	
Factor strategies (long-only and long-short)	
Active strategies (long-only and long-short)	

Current analysis does not guarantee future results.

As of January 26, 2026

Source: AB

Conclusion

By way of concluding this paper, it's worth stopping and asking the question: What is investing for? People may choose to try to answer this in a myriad of ways, but we would suggest that ultimately it has to be to fund activities ("liabilities" if one prefers the term) in the real economy such as retirement, healthcare and physical investment. If one is happy to accept that point as a very naïve depiction of the point of investing, then surely the target or benchmark is inevitably linked, in some way, to inflation and not to metrics couched in terms of market indices.

One needs to also be aware that the 1980–2020 period was highly unusual. Growth was abundant, in part driven by favorable demographics, an opening up of the global economy, and the adoption of a regulatory and tax regime incredibly favorable to corporations (in the US at least). In addition to this, inflation fell. Credit for this can probably be doled out to globalization, automation and (possibly) the increasing independence of central banks in this time. At the same time, investors generally did not believe that they had to consider planetary limits, and there were no major wars. Moreover, this was a period in which, initially at least, public equity and public fixed-income markets dominated allocation, because that is how capital was raised (in addition to bank credit). It is in this context that the basis of SAA as practiced in the industry was set. It made sense to talk of asset classes and diversification derived from a limited set of choices across them. But the world is not always like that. Indeed, we would assert that none of these factors apply any more. Not one.

It would be easy to draw a bearish conclusion from the set of macro concerns that abound, the unraveling of the post-war order, and asset valuations that are extended. However, we believe that would be the wrong conclusion to draw. Instead, we think that investing has just become harder. The return-risk "space" accessible to investors using traditional approaches has shrunk. It is in this context that the extra flexibility and focus on ultimate investing goals, which TPA offers, means that it is an approach that will be adopted much more broadly in years to come.

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