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Beyond Strategic Asset Allocation: *Rethinking Institutional Portfolio Management Across TPA, LDI, and ALM*

In Collaboration with

Rethinking Institutional Portfolio Management Across TPA, LDI, and ALM

Introduction

For decades, institutional investing was dominated by Strategic Asset Allocation (SAA), a framework rooted in Modern Portfolio Theory and built around long-term allocations and broad asset classes. However, several structural market shifts are accelerating the move toward integrated portfolio management frameworks, including persistent inflation uncertainty, higher interest rate volatility, rapid growth in private markets, increasing liquidity complexity, and rising demands for enterprise-wide risk transparency.

As institutional investors manage more complex balance sheets across public and private assets, traditional silo-based portfolio construction models are becoming increasingly difficult to sustain.

Importantly, this evolution is not leading toward a single universal model. Instead, different types of institutional investors are adopting different portfolio construction approaches depending on their liabilities, governance structures, liquidity requirements, and regulatory constraints.

While insurance companies have long operated under **Asset-Liability Management (ALM)** disciplines that explicitly integrate assets, liabilities, liquidity, and capital considerations, other institutional sectors have increasingly adopted frameworks such as **the Total Portfolio Approach (TPA) and Liability-Driven Investing (LDI)** to support more outcome-oriented and balance-sheet-aware investing.

Although these frameworks emerged from different institutional contexts, they share a common principle: **investment decisions are increasingly being evaluated through a total portfolio and enterprise-level lens rather than through isolated asset-class silos.**

The Expanding Role of Outcome-Oriented Investing

For six decades, SAA has served as the dominant framework for institutional investing. This model typically divides assets into two homogenous silos: **equities** (risky assets) and **fixed income** (low-risk assets), with decisions determined by stationary long-term relationships between these classes. Traditional portfolio structures such as 60/40 or 70/30 equity/fixed income reflected an institution's risk tolerance and investment horizon.

This framework proved highly effective during a period characterized by relatively stable correlations, simpler institutional structures, and limited access to alternative investments.

However, several structural shifts challenged the assumptions underpinning traditional SAA:

- The rapid growth of "alternative assets," including emerging market debt, infrastructure, private credit, and private equity
- Increasing globalization and changing macroeconomic relationships
- Greater focus on liquidity management and downside protection
- Rising regulatory and accounting complexity

The rapid expansion of private markets has further accelerated this shift by introducing new challenges around valuation transparency, liquidity management, denominator effects, and portfolio look-through across increasingly complex investment structures. As allocations to illiquid assets continue to rise, institutions require more integrated portfolio oversight across public and private markets. Liquidity forecasting and stress testing capabilities are also becoming increasingly important as institutions manage larger allocations to illiquid assets while maintaining operational flexibility during periods of market stress. As a result, institutional investors increasingly began shifting from managing silos against fixed targets toward focusing on fundamental investment objectives.

While the direction of travel has been broadly similar across the industry, implementation has diverged significantly based on the nature of each institution's liabilities and operating constraints.

Modern outcome-oriented investment frameworks are increasingly dependent on advanced data and technology capabilities. Institutions require integrated investment data architectures, cross-asset risk aggregation, scenario modeling, liquidity analytics, and enterprise portfolio transparency across both public and private markets. As portfolios become more complex, many institutions are now undertaking significant operating model and technology modernization initiatives to support integrated investment decision making across increasingly complex portfolios.

INVESTOR TYPE	RISK DEFINITION	REGULATION	OBJECTIVE	FRAMEWORK
Endowments, Foundations, Sovereign & Public Funds	Asset-only or holistic risk	Favorable (e.g. GASB)	Long-term return optimization	**TPA** Total Portfolio Approach
Corporate Defined Benefit Plans	Funded ratio risk	Strict (ERISA, PPA 2006, FASB, IFRS)	Reduce funded ratio volatility and contributions	**LDI** Liability-Driven Investing
Insurance Companies	Solvency and probability of ruin	Heavy (NAIC RBC, SCR, Solvency regimes)	Ensure long-term profitability and solvency	**ALM** Asset-Liability Management

TPA: Flexible Total Portfolio Optimization

The Total Portfolio Approach represents one of the most flexible forms of outcome-oriented investing. Under TPA, the entire portfolio is managed as a single, integrated pool of capital, rather than a collection of independent asset-class silos.

Three core principles distinguish TPA from traditional SAA:

- **Unified Strategy:** There is only one portfolio and one team, rather than fragmented sub-portfolios.
- **Risk-Factor Focus:** Investments are defined by their exposure to various risk drivers rather than traditional asset classes.
- **Outcome-Oriented:** Each investment is evaluated based on its contribution to the overall objectives, including return generation, diversification, liquidity, and downside protection.

In a TPA framework, capital is allocated to the most attractive risk-adjusted opportunities regardless of asset class. Effective TPA implementation often requires more agile governance structures, including delegated investment authority models, centralized CIO-led decision making, integrated investment teams, and faster capital allocation cycles. In practice, organizational silos and governance complexity are often among the largest barriers to successful implementation.

Large public pension plans, sovereign wealth funds, and Endowments & Foundations (E&F) are prime candidates for TPA due to their large asset bases and long-term horizons.

Unlike corporate plans, US public funds benefit from:

- **Stable Discount Rates:** They use expected ROA as discount rates, which are less sensitive to monthly market fluctuations.
- **Low Liquidity Needs:** Because these plans are often open to new entrants, continuous contributions mean they have lower immediate liquidity requirements.
- **Asset-Only Focus:** Low correlation between liability value and market conditions allows these funds to invest largely in an asset-only manner.

However, implementation is demanding. It requires complex risk-factor mapping, comprehensive data collection, sophisticated data analysis and portfolio / risk management tools, and a highly talented team to monitor the risk factor correlations that change over time.

LDI: Liability-Aware Portfolio Construction

LDI can be viewed as a specialized version of TPA, or outcome-oriented investing, designed for the unique constraints of corporate DB plans.

Following the Pension Protection Act of 2006 (PPA06), corporate plans moved to market-consistent discount rates, making funded ratio volatility a primary risk measure. As a result, DB plans increasingly shifted toward LDI frameworks designed to align asset behavior with liability characteristics. Under LDI, the primary objective is not maximizing standalone asset returns, but stabilizing funded status and reducing required contributions into the plan. This fundamentally changes the definition of “risk” within the portfolio.

In this framework, for traditional final-average-pay (FAP) plans liabilities, long-duration bonds are the "low-risk" assets because they hedge liability duration exposure, while cash is considered high risk because it introduces funded status mismatch risk. LDI strategies for most FAP plans will evolve along plan-specific LDI glide-paths as funded ratios improve over time.

Importantly, liability structure matters significantly within LDI frameworks. Cash-balance DB benefits behave very differently from FAP liabilities, and plans that offer cash balance benefits should implement LDI strategies tailored to their liability profiles.

ALM: Enterprise Balance Sheet Optimization

If TPA represents the most flexible form of unconstrained total portfolio optimization, insurance Asset-Liability Management (ALM) represents the opposite end of the spectrum, where liability structure, liquidity requirements, and regulatory capital constraints fundamentally drive investment decision-making. In many respects, insurance ALM represented one of the earliest forms of enterprise-level outcome-oriented investing, decades before similar concepts gained broader adoption across pensions, endowments, and sovereign institutions.

In the insurance sector, ALM is not simply an investment framework – it is an enterprise-wide discipline spanning product design, pricing, and capital allocation.

Several characteristics unique to insurance products distinguish ALM:

- The structure and the depth of the financial market play a key role in insurance product design and pricing.
- The liability cash flow characteristics are the primary drivers of asset allocation decisions
- Asset portfolio risk-adjusted yield drives the liability discount yield and hence the pricing of the insurance products.

Insurers must undergo rigorous cash flow adequacy testing to ensure asset portfolios remain appropriately aligned to liability obligations and regulatory capital requirements.

As private equity firms continue expanding into the insurance sector and increase allocations to higher-yielding, illiquid assets, the need for sophisticated ALM and liquidity stress testing becomes even more paramount. The interaction between asset yield enhancement, liability behavior, capital requirements, and liquidity management has become a defining strategic challenge across the insurance industry.

Conclusion

Institutional investing is evolving beyond traditional Strategic Asset Allocation toward more integrated and outcome-oriented portfolio construction frameworks. However, the future of institutional investing is unlikely to converge around a single universal methodology.

Instead, different institutional investors will continue adopting specialized approaches aligned to their unique liabilities, liquidity needs, governance structures, and regulatory environments.

TPA offers maximum flexibility for institutions with long horizons and limited liability constraints. LDI provides pension plans with a framework for managing funded status volatility and contribution risk. ALM remains indispensable for insurers whose balance sheets, product structures, and solvency requirements are deeply interconnected.

Across all three models, the common trend is clear: the next generation of institutional investing will increasingly be defined not by asset class specialization, but by an institution's ability to integrate investment strategy, liabilities, liquidity, enterprise risk, and technology into a unified operating model. Institutions that successfully modernize their investment decision making frameworks, data foundations, and governance structures will be best positioned to navigate an increasingly complex and interconnected market environment.

Contributors

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Louis is Founder and CEO of CSAA Consulting, LLP and an Advisor for Alpha FMC. He has over 25 years of financial services strategy experience, specializing in insurance and pension investments and operations. He has a proven track record of strategic partnership in support of clients managing assets on behalf of insurer and pension clients. He has routinely partnered with a range of client stakeholders, including actuaries, portfolio managers, and CRM teams. Louis was a founding member of the Wellington Management LDI team, with significant research experience across fixed income products, asset allocation strategy, volatility analysis, LDI custom benchmark construction, ALM, and CDI portfolio construction.

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