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RADY SCHOOL OF MANAGEMENT
The Brandes Center

TOTAL PORTFOLIO APPROACH

A ROUNDTABLE DISCUSSION

by Navya Khurana

“The whole is greater than the sum of its parts.”

- Aristotle

In recent years, the Total Portfolio Approach (TPA) has gained followers among institutional asset owners. During 3Q25, The Brandes Center Advisory Board invited two investment professionals to share their perspectives on TPA’s benefits and pitfalls:

- Mary Beth Lato, CFA, Director, Strategic Asset Allocation with Russell Investments
- Don Pierce, CFA, CIO of the San Bernardino County Employees’ Retirement Association (SBCERA)

The following excerpts are designed to summarize the conversation. For a few suggested resources on TPA, see the Endnotes.

Executive Summary:

1. Four Principles of TPA:

Governance, culture, competition for capital, and factor-based lenses.

2. Competition for Capital:

Under TPA, assets are judged against one another at the total plan level, not in silos.

“Emerging market debt assets compete with real estate which competes with European private equity.” -Pierce

3. The Correlation Dilemma:

“I find correlation to be the least compelling reason to do something.” - Pierce

At SBCERA, returns are broken into income and price change, with volatility tied mainly to price. By prioritizing income and holding cash for its “option value,” the fund reduces reliance on diversification or correlation benefits.

4. Specialist vs Generalist Approach:

“By definition, it’s probably implausible that the multi-asset manager that I picked is great at all things, but we find that the ability to access those assets when volatility arises allows us to be good enough and participate in market moves as opposed to waiting for the best opportunity.”

- Pierce

5. TPA vs 60/40 Approach:

Pierce: “If the answer to the question is always 60% equity, then price doesn’t matter.”

Lato: But “the SAA approach keeps you disciplined.... With TPA, if done poorly, there’s no limits, no guidelines.”

Introduction: The Total Portfolio Approach

For decades, portfolio managers tended to rely on a conventional 60/40 approach to asset allocation; this was perhaps the most common type of Strategic Asset Allocation strategy (SAA). Although widely popular, it tended to limit investment opportunities to traditional equities and bonds. In the mid-1980s, David Swensen, CIO of the Yale University Endowment, introduced the more holistic Endowment Model. It featured investments across alternative assets like private equity, venture capital, and hedge funds, alongside traditional assets like stocks and bonds. The Endowment Model aimed to diversify risk and capture the benefits of the illiquidity premium. However, its focus on versatility sometimes backfired, as asset class teams operated in isolated silos, prioritizing individual returns, while the overall portfolio saw little benefit and its components remained highly correlated.

To address these issues, the Total Portfolio Approach (TPA) has emerged more recently as a framework that seeks to optimize the portfolio as a whole rather than focusing on its isolated parts. Unlike traditional methods, TPA was built to be flexible and adaptable to different organizations' needs.

Don Pierce defined TPA along four principles—but noted SBCERA does not use each:

1. Governance
2. Culture
3. Competition for capital
4. Factor-based lenses.

Brandes Center Advisory Board member Liza Crisafi (former CIO of San Diego City Employees' Retirement System) asked Pierce about the size of his investment staff and whether TPA leads to them being more generalists vs. specialists.

Exhibit 1 | Overview of TPA and SAA

	SAA	TPA	
Performance assessed vs.	Benchmarks	Fund goals	Better decision framing
Success measured by:	Relative value added	Total fund return	
Opportunities for investment defined by:	Asset classes	Contribution to total portfolio outcome	Better decision making
Diversification principally via:	Asset classes	Risk factors	
Asset allocation determined by a:	Board-centric process	CIO-centric process	Greater dynamism
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

“I have a team of 6, if you include me, of very capable investment folks. We are a \$16 billion dollar plan. I have a rule of thumb that you need roughly an investment person for every \$2 billion dollars.” He added that the manner in which the team looks at prospective actions for the portfolio does foster a more generalist approach. “I want to give every person in my team a cross section of our portfolio. They all have some touch points with equity, private equity, or private assets in general, credit, emerging markets and so on.” He mentioned that the team rotates roles every four years.

“We contract with managers on a more strategic basis to access a manager's total platform rather than at an individual fund level. This comes down to the competition for capital. All of a manager's assets are not necessarily interesting to us at any particular time, but the broader those capabilities, the more interested we are in that.” His board must approve a manager, but once it does, he said he has “a lot of flexibility to allocate capital” based on a healthy competition.

“Emerging market debt assets compete with real estate which competes with European private equity. Those risk and reward considerations are done at the total portfolio level as opposed to the asset class level,” Pierce said.

When asked if this mindset also applies to tactical asset allocation, Mary Beth Lato said, “The idea of competition for capital probably applies somewhat differently at both levels, but you could consider it in both places.

“We see a very wide range of what investors are willing to delegate to outside managers,” Lato said of her clients. “Some give more granular allocations to managers, and any sort of beta asset allocation shift has to come from them redirecting money, whereas others outsource that all to us.”

Integrating Factor Considerations

Lato said her team works with clients who incorporate elements of the TPA approach as well, including return factors. “We think about the role of different asset classes or the factors they are exposed to. Is this providing true diversification? Or is it overlapping with other factors from other asset classes? We want to understand how different asset classes might react to different market events rather than just looking at historical correlations, which really aligns with the TPA approach.”

She stressed the importance of dynamism in a portfolio. In addition to thinking about long-term expectations, managers also need to evaluate what may deliver over the next 3, 5, or 10 years, if that's different from history—and adjust the allocation accordingly. Lato also warned that the level of dynamism might be very different for different clients. “It really comes back to what is your governance and decision-making structure and realizing that there's probably no one-size-fits-all solution.” Elements of TPA such as holistic thinking, flexibility, and alignment can benefit investors even if they don't formally abandon the traditional asset allocation process.

When asked for an example of how she looks at risk factors, Lato said, “We’re looking at it from the total portfolio solution. If I’m looking at infrastructure, it might have some duration exposures. It might have some economic growth beta exposures, but understanding that if we want to reduce the total portfolio duration, we may not want to increase infrastructure.”

Evaluating Contributions to the Total Portfolio

Advisory Board member Zev Frishman asked Pierce how contributions to the total portfolio are evaluated: “Do you calculate an expected return and expected risk and how this will interact with the rest of the portfolio?”

Pierce said it is more qualitative. “If we’re looking at adding Double B CLOs, for example, we would say, “‘They are trading at 850 over.’ And then ask, ‘Is that the highest and best use of capital today as opposed to some other assets that we could apply?’”

The example prompted Pierce to talk about how SBCERA evaluates performance. He said it’s not a precise forecast of expected return. Rather, it’s more absolute return focused. “Do I want to lock up my capital for X amount of time for an extra 400 basis points?” he asked, adding that the question guides decisions more than “an equilibrium approach to return assumptions.” This way, every addition must elevate the portfolio’s overall risk/reward profile, not just add variety for its own sake.

The Correlation Dilemma

Frishman asked how SBCERA evaluates risk at the total portfolio level. “You can have an asset that, on its own, may look very risky,” Frishman noted, “but in conjunction with everything else currently in the total portfolio, it may actually offset some other risks.”

Pierce agreed. He shared his model of breaking total return into its components:

1. Income
2. Price change

“When we think about the correlation issue,” he said, “it comes from the price change component. So to the extent that I can generate more return from income and less from price change, I have to worry less about those interactive effects.”

He added:

“I find correlation to be the least compelling reason to do something.”

Lato agreed, noting it’s an “ongoing struggle” in client conversations. “Sometimes, communicating the benefit for the total portfolio is difficult when the end investor looks at that line item’s risk,” she said. Clients may get “bogged down” by one investment’s short-term performance, losing sight of its role in the whole. TPA-minded managers and advisors must continually reinforce the broader perspective: what matters is the portfolio’s aggregate behavior, especially in stress scenarios, rather than each position in isolation.

“I find correlation to be the least compelling reason to do something.”

- Don Pierce, CFA, CIO of the SBCERA

Pierce shared more details on his comment about correlations. “You don't necessarily get the covariance that you think you're going to get and opportunities arise in specific markets. If you want negatively correlated assets, you're probably going to have to pay for it.” He said one way to do that is through options—which he holds in the portfolio.

“We don't look at returns in a prism of alpha and beta,” he said. “We look at them in terms of income and price changes. Again, price change is where all the volatility is. So, the more I can get from income, the less I have to worry about volatility. And diversification is an outgrowth of industry selection and things like that. So, diversification, while important, is just not a very compelling reason for us to add something to the portfolio. In fact, I would rather just have cash.” He stressed, “If that's my choice—a diversifying asset or cash, I would take cash because I believe cash has option value.”

He added, “I am a big believer that being fully invested is not a virtue. If something is not meeting our cost of capital, then waiting in cash is not a bad thing.” He added that his board has approved a relatively wide range for cash holdings, allowing the allocation to go up to 10%.

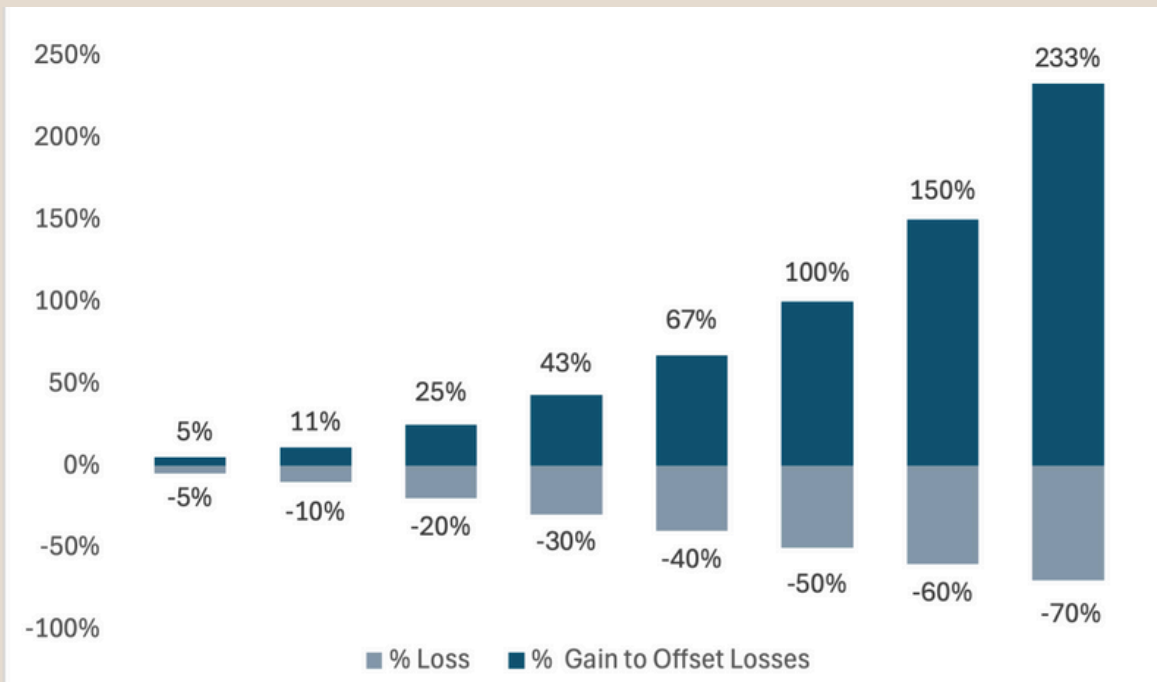
This flexibility, Pierce explained, is central to how SBCERA navigates volatile markets. With up to 10% in “dry powder,” the fund can act quickly when credit spreads widen or markets sell off. A governance structure with broad mandates keeps managers engaged during periods of stress, while a tilt toward income over price change reduces volatility by making market swings a smaller driver of returns. The challenge, he noted, is that managers are “quick to flag buys but far less forthcoming about when to sell,” leaving those calls to SBCERA's team.

Seeking to Avoid Large Losses

Often, when managing a portfolio, the biggest drag on long-term returns isn't missing gains — it's enduring deep losses. A 10% loss needs an 11% gain to recover, but a 50% loss requires 100%, and a 73% loss demands 270%. The math of compounding makes recovery from large drawdowns disproportionately harder. See Exhibit 2.

Diversification can help, but as TPA shows, traditional approaches may leave portfolios vulnerable to correlated losses. By managing risk at the total portfolio level rather than in asset-class silos, TPA aims to limit severe drawdowns and preserve capital so compounding can work in investors' favor.

Exhibit 2 | Breakeven Returns, the Associated Gain Needed to Offset a Loss



Source: Universa Investments, L.P., "Total Portfolio Approach and CAGR," 2025

Governance, Discretion & Manager Selection and Termination

Pierce revealed that the SBERCA board reserves only a few broad decisions for itself – setting overarching asset allocation targets and approving or terminating investment managers. Day-to-day program implementation sits with the CIO and investment staff, who meet twice weekly to coordinate actions. He emphasized hiring managers for their full range of capabilities, whether in emerging market debt, high yield, corporates, or Treasuries, so capital can be allocated dynamically across opportunities. "My priority is direct access to assets and risk-adjusted allocation," he noted, adding that fund structures mainly serve administrative purposes.

While SBCERA grants managers broad discretion within its governance framework, Russell's authority shifts widely based on each client's preferences.

Pierce was also asked about manager termination criteria. While the ultimate decision rests with the board, he said he has been very intentional about not having a watch list. He added that if managers are communicative about underperformance, he tends to be patient. In most cases, termination has stemmed from a change in ownership, change in the key decision maker(s) and other, non-performance-related issues.

As the former CIO of San Diego City, Crisafi agreed that eliminating a watch list helped its board focus more on long-term performance. She said, “It helped to not fire managers exactly when you shouldn't be firing them. And you know we had managers that would go through long periods of underperformance. And we understood that. We knew why. And we held them for long periods of time and, over the long haul, we had great returns.”

Ric Ford, FSA, CFA, EA, Senior VP at Callan joined the meeting as a guest. He said TPA also addresses the issue of a plan not having a “bucket” for a particular asset class that, otherwise, might make sense to include in the portfolio. He added that TPA could eliminate the potential for some team members who are specialists in an area, like small-cap equity, to always make the case for that asset class in order to grow the size of their allocation and potentially the visibility and importance they have within the team.

Lato and Pierce agreed that TPA can address these issues.

“The total plan approach would dictate that I don't have to invest in an asset class where we don't think the risk-reward trade-off is compelling,” Pierce said. “It gives us that flexibility. Now, to the extent that you solve for these two issues, you may introduce others. There are trade-offs, but I do think that the silo approach—and that it's always a good time to invest in X—is definitely one of the big, big things we solved for.”

In response to a question about how he can be certain he is picking the best manager for his plan, Pierce answered very honestly, “I don't know. That's what I would say.” He added that he may hire a couple different managers with a similar mandate but differentiated asset channels. Going back to the specialist vs. generalist discussion, he said, “By definition, it's probably implausible that the multi-asset manager that I picked is great at all of those things, but we find that the ability to access those assets when volatility arises allows us to be good enough and participate in market moves as opposed to waiting for the best opportunity.”

“We have similar conversations with our clients on specialist versus generalist,” Lato said. “We often give different advice to different clients depending on what their governance structure is and how they're able to implement it.”

Sharing another candid observation from his decades of experience, Pierce said the investment management business consists broadly of two components: the business of investing—or the selection of assets—and the actual business of being an investment manager. He said, “That includes assets under management and related concerns. And sadly, it has been my long experience that whenever these are in conflict, the business side always wins.”

“Sometimes, investment managers will launch funds in different asset classes to provide diversification for their business. “I know I said diversification was the least compelling reason to invest earlier. In this case, who’s it for?” Pierce asked. “I could have a \$100 million position in a single asset. I am diversified, but the manager is probably very nervous because they have a one-asset portfolio. In our view, since we’re paying the money, it [diversification benefits] should be for us.”

Pierce was asked if he felt he got lower fees by using fewer managers. “We try to, but I have found that our ability to get better deals from managers that have between \$4 and \$24 billion dollars under management seems to be much better.” He said he couldn’t convince a much, much larger manager to make concessions on fees. “We want to negotiate with people who view our capital as precious and the whole asset approach as a value-add to them as opposed to a pain in the ass.”

Brandes Center Executive Director Bob Schmidt asked about smaller plans and their limited potential to negotiate favorable fees. “Are they better off indexing?”

Lato said, “I think that is why a lot of smaller plans are looking to OCIO providers and access to the scale those OCIOs can deliver.”

TPA vs 60/40

Schmidt asked about the potential for TPA to introduce added complexity and problems for the portfolio and its managers. “What would you say to contrasting TPA with a 60-40 approach?” he asked.

“Can I be provocative?” Pierce responded. “If the answer to the question is always 60% equity, then price doesn’t matter.”

Lato shared a different perspective. “The question does go to one of the places where I do have concerns potentially with TPA being broadly used by investors who may not be set up for it, especially in the dynamic part of investing,” she said. “The SAA approach keeps you disciplined, and it doesn’t allow you to stray too far from where you think you need to be long term, whereas with the TPA approach, if done poorly, there’s no limits, no guidelines. That’s something you need to consider—making sure you have some constraints. The mega funds that have adopted TPA are likely not guilty of these sins. But it’s something that other organizations could easily go down the wrong path with.”

Pierce noted his plan has position limits. He added, “We tend to be very value focused. So, if markets are selling off, if there is market volatility, things are getting cheaper.” He implied the plan would be quick to take advantage of these opportunities—within the prescribed limits.

When asked about benchmarking, Pierce said for the total plan, he uses an opportunity cost approach. “The more granular you make the benchmark, at least from my perspective, what you're really measuring is the efficacy of managers implementation or your manager selection as opposed to, ‘Did you make a good strategic decision?’”

For example, he asked the Board to evaluate whether going to private equity was a good choice, or whether allocating to high-yield bonds was preferable to holding higher-quality corporates. The point, he emphasized, is that TPA’s focus is on the merit of those strategic allocation decisions—not just on how well a chosen strategy was implemented.



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Endnotes

These articles may prove helpful with better understanding elements of TPA and how various practitioners are applying it:

CAIA Association. “Innovation Unleashed: The Rise of the Total Portfolio Approach.” 2024.

Thinking Ahead Institute. “Total Portfolio Approach.” 2019.

WTW. “Total Portfolio Approach: Is It Right for You?” 2024.

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