



PARA BELLUM ADVISORS

EXECUTIVE BRIEF

# Total Portfolio Approach

## Framework, Reality, and the Questions That Matter

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## Executive Summary

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Most institutions that say they run Total Portfolio Approach (TPA) are not.

They have updated their governance documents, commissioned factor dashboards, and engaged consultants to design risk budgeting frameworks. These are genuine improvements. They are not TPA.

Real TPA requires portfolio-level decision authority, genuine derivatives fluency, capital that can move across risk expressions within days, and a risk function embedded in investment decisions rather than reporting on them afterwards. Most institutions have none of these in place.

This brief explains why TPA is less a framework problem and more a capability problem, and what that means for institutions that are serious about closing the gap.

## 1. TPA Is Not a New Idea

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The core logic of Total Portfolio Approach, capital allocated to the best risk-adjusted opportunity, managed as a single integrated engine, has existed in sophisticated form for 50 years. Global macro managers in the 1970s, endowment models at Yale and Harvard through the 1980s and 1990s, and sovereign wealth funds in the 2000s all operated on this logic without calling it TPA.

What is new is not the concept but the institutional governance language in which it is now dressed. Post-GFC complexity, the failure of static SAA frameworks in volatile regimes, and consultant-packaged risk budgeting tools brought TPA to a much wider institutional audience.

The formalisation wave broadened the concept. It also diluted the execution discipline that made the original practitioners effective.

*TPA is not a 21st-century innovation. It is a convergence of practices with a 50-year pedigree, repackaged into institutional governance language.*

## 2. Three Levels of Integration

TPA operates at three distinct levels. They are sequential. Each is necessary but not sufficient.

Level	What it actually requires
<b>Governance Integration</b>	Board mandate and portfolio-level accountability. Asset class silos remain but decision rights shift upward. Most institutions reach this level.
<b>Analytical Integration</b>	Common risk language, factor exposure aggregation, and total portfolio attribution. Dashboards improve. Capital allocation behaviour typically does not.
<b>Execution Integration</b>	Capital mobility across risk expressions within days. Derivatives as first-class instruments. Risk embedded in investment decisions. Few institutions reach this level.

The gap between Analytical Integration and Execution Integration is the hardest transition. It requires changes to hiring, decision authority, incentive structures, and derivatives capability that are genuinely disruptive to existing organisational arrangements.

## 3. What TPA Actually Requires

Four capabilities are load-bearing. Without them, TPA is governance language over unchanged portfolio behaviour.

### **Portfolio-level decision authority.**

Capital must be able to move on a total portfolio view without asset class committee approval. In most institutions, asset class heads retain effective veto. This is the most fundamental gap and the most politically difficult to fix.

### **Derivatives and convexity capability.**

Derivatives are not optional in a real TPA framework. They are the mechanism through which a portfolio adjusts risk quickly, expresses views efficiently, and manages capital usage without the transaction costs of moving physical positions. Options-based thinking requires genuine internal literacy, not just access to bank structuring desks.

### **Cross-asset practitioner skillset.**

The skillset required is closer to a macro portfolio manager than a traditional asset allocator. Asset class specialists applying TPA governance language will continue to think and act as asset class specialists. The analytical framework changes. The decision behaviour does not.

### **Risk as a trading function, not a reporting function.**

Risk managers need to sit in the investment decision loop with authority to influence allocation, not downstream of decisions, reporting on exposures after the fact. Risk-as-compliance and risk-as-trading-input produce fundamentally different portfolios.

## 4. Why Most Institutions Will Not Execute TPA Well

The failure modes are structural, not motivational.

### The career risk problem.

A board that adopts TPA and fails visibly is worse off, reputationally, than one that never tried. This dynamic explains the consultant-dependency loop: frameworks designed by credentialed advisors spread accountability when outcomes disappoint. Rational for the institution. Bad for execution quality.

### Talent constraint.

The career path that produces a head of equities or a head of fixed income does not produce a cross-asset allocator with derivatives fluency. These are different skills built through different experiences.

### Incentive misalignment.

Performance measured at the asset class level actively works against TPA behaviour. A portfolio manager who underweights equities on a sound total-portfolio view but watches the equity benchmark rally has a difficult story to tell at review time.

### Governance inertia.

Boards understand asset class language. Most do not have fluency in risk factor or cross-asset frameworks. The board governance layer tends to preserve asset class categories even when the investment team has nominally moved to TPA.

*The part consultants do not put in the proposal: most TPA programmes produce better analytics and unchanged portfolio behaviour. The gap is not conceptual. It is operational.*

## 5. The Diagnostic: Where Does Your Institution Actually Sit?

Six questions. Answer honestly. The right column describes governance overlay. The left column describes operational reality.

Dimension	TPA Operational Reality	Governance Overlay Only
<b>Decision authority</b>	Allocation decisions made at total portfolio level without asset class veto	<i>Investment committee approval required for cross-asset moves</i>
<b>Derivatives literacy</b>	Team prices and constructs options structures internally	<i>Structuring outsourced to bank desks; vanilla hedging only</i>
<b>Capital mobility</b>	Reallocation from decision to implementation takes days	<i>Reallocation takes weeks; SAA weights constrain adjustment</i>
<b>Risk function</b>	Risk managers embedded in investment decisions with real influence	<i>Risk team reports on exposures after decisions are made</i>
<b>Incentive alignment</b>	Performance measured at total portfolio level	<i>Asset class benchmarks dominate; silo outperformance rewarded</i>
<b>Convexity usage</b>	Options and structured payoffs used as deliberate construction tools	<i>Options confined to explicit hedging; no systematic convexity management</i>

*If most honest answers sit in the right column, the portfolio is running SAA with TPA branding.*

## 6. Capability First: Everything Else Follows

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The institutions that execute TPA well share one characteristic: they built market-facing execution capability before they redesigned their governance documents. The framework followed. It did not lead.

For institutions serious about closing the gap, the sequencing matters:

- Build derivatives literacy as core infrastructure, not a specialist add-on.
- Restructure performance measurement to the total portfolio level before declaring TPA adoption.
- Give the risk function genuine authority in the investment decision loop.
- Accept that the talent required for genuine TPA is different from the talent that manages an SAA portfolio.
- Treat the consultant engagement as design input, not capability transfer.

TPA is not optional for institutions that aspire to genuine investment sophistication. But the sequencing is not optional either. Governance without capability is paperwork.

*The right question is not "How do we implement a TPA framework?" It is "Do we have the capability to run a genuinely integrated portfolio, and if not, what will it actually take to build it?"*

## About This Brief

This Executive Brief is a companion to the Para Bellum Advisors practitioner paper: Total Portfolio Approach, Evolution, Misconceptions, and Execution Reality. The full paper covers the intellectual lineage of TPA, the three levels of integration, detailed failure mode analysis, institutional archetypes, and a full TPA Reality Gap Diagnostic.

Available at [www.parabellumadvisors.com/practitioner-papers/total-portfolio-approach-evolution-misconceptions-and-execution-reality/](http://www.parabellumadvisors.com/practitioner-papers/total-portfolio-approach-evolution-misconceptions-and-execution-reality/)

## About Para Bellum Advisors

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Para Bellum Advisors is an independent advisory firm specialising in derivatives, structured finance, and balance sheet efficiency for institutional investors, family offices, and corporate treasury teams.

The firm focuses on hedge framework design, overlay mechanics, collateral efficiency, and portfolio resilience across FX, rates, credit, equity, and volatility exposures. Its work is practitioner-led, drawing on three decades of experience across trading, structuring, and portfolio management in APAC and globally.

Para Bellum Advisors is independent of product distribution and transaction mandates. Its objective is durable improvement in capital efficiency and liquidity resilience.

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