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ASSET MANAGEMENT

Beyond 60/40: The Total Portfolio Approach, Explained

How the world's largest investors are rethinking portfolios, and what it means for yours



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For decades, the 60/40 portfolio has been the default starting point for long-term investors. Put about 60% in stocks for growth and 40% in bonds for stability, then rebalance from time to time. It is simple, easy to understand and, for long stretches of time, it worked well.

Over the past several years, however, some of the world's largest investors, including major pension plans and sovereign wealth funds, have been changing how they build portfolios. Their approach is called the **Total Portfolio Approach**, or TPA. Here is what it is, why institutions are moving toward it, and what it means for you.

The traditional **recipe**

The 60/40 portfolio is the best-known example of **Strategic Asset Allocation**, or SAA. Think of it as a fixed recipe. You decide in advance how much goes into each ingredient, usually stocks and bonds, and you keep those proportions over time. Each part is managed in its own bucket and measured against its own benchmark.

The strength of SAA is discipline. Its weakness is that it assumes the ingredients will keep behaving as they have in the past, and in particular that bonds will hold up when stocks fall.

What happened in **2022**

Most recently, that assumption was tested in 2022. As central banks raised interest rates sharply to fight inflation, stocks and bonds fell at the same time. Morningstar's benchmark for a U.S. 60/40 portfolio lost 15.3% that year, only about four percentage points better than the 19.4% decline in the U.S. stock market.[1] The lesson is not that stocks and bonds have stopped working. They remain the foundation of most portfolios. It is that relying on just two sources of return can leave investors exposed when both are hit by the same forces.

The total portfolio approach, **in plain language**

TPA starts with a different question. Instead of asking how much belongs in stocks versus bonds, it asks: **what is this portfolio trying to achieve, and does each investment help get it there?**

Think of a hockey team. You would not build it entirely from goal scorers. You need defence and a goalie too, and you judge each player by how they help the team win. TPA treats a portfolio the same way: every holding is judged by what it adds to the whole portfolio's risk, return, liquidity and diversification.

In practice, a few core ideas do most of the work:

- **One goal for the whole portfolio**. Rather than separate targets for every bucket, the portfolio is managed toward a single overall objective and level of risk.
- **A simple yardstick.** Many institutions compare themselves with a low-cost "reference portfolio" of stocks and bonds. Anything more complex has to earn its place by improving on that simple alternative after costs.
- **Looking beneath the labels.** Two investments with different names can carry the same underlying risk, such as sensitivity to rising interest rates. TPA looks at the drivers underneath so the portfolio is diversified in substance, not just on paper.
- **Competition for capital.** Money goes where it is expected to do the most for the whole portfolio, not where tradition says it belongs.

	TRADITIONAL 60/40 (SAA)	TOTAL PORTFOLIO APPROACH (TPA)
Starting point	Fixed weights for each asset class	One overall goal and level of risk for the whole portfolio
Measuring success	Each bucket against its own benchmark	The whole portfolio against your goals and a simple reference portfolio
Diversification	Mainly stocks and bonds	A broader range of return sources, judged by the risks underneath
Adding an investment	It has to fit an existing bucket	It has to improve the whole portfolio after costs

What institutional investors **are doing**

Canada's largest pension plan is a well-known example of total portfolio thinking. CPP Investments anchors the base CPP to a simple mix of 85% global equities and 15% Canadian government bonds, which sets the level of market risk the fund aims to take.[2] Its actual portfolio looks very different. As of March 31, 2026, CPP Investments held 36% in public equities, 22% in private equities, 20% in real assets such as real estate, infrastructure and energy, 13% in government bonds and 9% in credit.[3] In other words, about half of the fund sits outside public stocks and government bonds. According to BMO Global Asset Management, writing in 2024, all but one of Canada's other "Maple Eight" pension funds allocate more than 40% to alternative investments.[4]

In the United States, CalPERS, the country's largest defined-benefit public pension fund, voted in November 2025 to adopt TPA, which replaced its strategic asset allocation model on July 1, 2026. CalPERS now judges performance against a single reference portfolio of 75% equities and 25% bonds rather than 11 separate asset-class benchmarks, a change it said would improve transparency and make performance simpler to judge.[5,6] Australia's Future Fund and the New Zealand Superannuation Fund are longer-standing adopters, and the CFA Institute notes that evidence from these funds suggests TPA strengthens governance alignment and increases portfolio resilience.[7]

This is an evolution, not a stampede. Based on a preliminary assessment of the world's 100 largest asset owners, 8 use TPA, 66 still use strategic asset allocation and 26 sit somewhere in between.[7]

Why they are moving away **from 60/40**

- **Stocks and bonds do not always offset each other**. When inflation and interest rates drive both markets, a two-ingredient portfolio has fewer places to hide.
- **Silos can work against each other**. Managed separately, buckets can build up overlapping risks unnoticed.
- **Clearer accountability and flexibility**. A single, simple benchmark shows whether added complexity and cost are adding value, and without rigid buckets, teams can pursue the opportunities that best serve the whole portfolio.

What this means for **individual investors**

Individuals should not simply copy a pension fund. Pension plans can lock money away for decades and use borrowing; individuals need access to their money, have taxes to manage and feel every market swing personally.

The core ideas, however, translate well:

- **Broader diversification**. Liquid alternative strategies, available in everyday investment accounts, can add sources of return that behave differently from stocks and bonds. They carry their own risks and cannot eliminate losses.
- **Every holding has a job**. Each investment has a clear role: growth, stability, diversification or inflation protection.
- **An honest comparison**. A simple, low-cost mix of stocks and bonds is the yardstick. Anything more complex should earn its place after fees.
- **A focus on your goals**. Benchmarks still matter, alongside whether your portfolio fits your goals, time horizon and the risk you are willing and able to take.

How Nest Wealth is applying **these ideas**

We are taking a measured path. Our portfolios are evolving toward an approach known as Enhanced Strategic Asset Allocation[7]: we keep clear strategic allocations, benchmarks and investment limits, while adopting selected TPA principles, especially a closer look at how each investment works with the rest of your portfolio. An illustrative mix of roughly 40% public equities, 30% fixed income and 30% liquid alternatives shows the direction; your own mix will reflect your objectives, risk profile, time horizon and liquidity needs. This is the first step in a multi-year evolution.

The bottom **line**

The 60/40 portfolio is not broken. It is a sensible starting point. What the world's largest investors have learned is that the better question is not how much to hold in stocks versus bonds, but how everything in a portfolio works together to reach a goal. That is the thinking we are bringing to our clients.

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Source

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