From: Capital Pool <news-noreply@news.pitchbook.com>
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Capital Pool

September 23, 2025

Presented by CWAN

Capital Pool features exclusive reporting and commentary on what's driving LP decision-making, with senior funds columnist Jessica Hamlin.

California Capitol building (PictureLake/Getty Images)

Calpers CIO Stephen Gilmore is pushing for the pension fund to implement the total portfolio approach, a framework that empowers the CIO to make asset allocation decisions rather than the board of directors and encourages collaboration among asset class teams. But some industry participants are calling for more evidence of the model's efficacy.

Already in place at some pensions and endowments in Canada and other regions, TPA has gained traction in the US in recent years as a method to move beyond a traditional asset allocation model, which can require lengthy board approval processes and create division between asset class investment teams. But a lack of evidence about its impact on the overall risk-return profile of portfolios is a concern for some.

"It's kind of a competition for capital internally," said CAIA Association managing director Aaron Filbeck. "TPA is delegating the authority of managing the portfolio completely to the CIO's office."

Gilmore, who has been in the role for over a year, began his campaign to adopt TPA in January, arguing that the governance model would improve performance and transparency and encourage more accountability for decisions made at the fund-management level. Gilmore is carrying on his legacy from his time as CIO at the New Zealand Superannuation Fund, a sovereign wealth fund that uses TPA.

He made his formal pitch to the board on Sept. 17 to transition the portfolio from its strategic asset allocation model. Calpers' board is set to vote on the change in November, with a goal for the policy to go into effect July 1.

The model

While the implementation of TPA is different at each institution, the spirit is this: In a standard strategic asset allocation model, the pension fund's board of directors will agree to a proposal to increase the fund's PE target exposure from 15% to 20%, for example. This target allocation then incentivizes the pension's PE investment team to fill up its sleeve, finding GPs to commit to reaching that 20% by the end of the fiscal year.

Under a TPA model, these kinds of decisions would be up to the CIO, not the board. Instead of deploying capital to fill their individual mandates, asset class teams would meet to discuss how, for example, $500 million should be spent—ideally in a way that props up the risk-return profile of the total portfolio.

The board's role here is merely to set the CIO's parameters for risk, before the investment chief takes the reins. At Calpers, Gilmore is asking the board to set parameters for the TPA model by adopting a new governance model that incorporates capital market assumptions and a risk model that uses a 75/25 equity-bonds reference portfolio, and limits the amount of active risk to 400 basis points, which is 50 basis points lower than Calpers' current policy. This new model would replace the pension fund's current target strategic asset allocation policy.

It's a nice idea: Bring all of your investment staff together to share investment ideas and determine which one will produce the highest reward. In practice, it may be a bit of a bloodbath.

'It's all smoke'

TPA toes the line between a policy shift and a cultural one. One paper written by Redouane Elkamhi, a professor of finance at the University of Toronto, and Jacky S. Lee, head of the total portfolio group at the Healthcare of Ontario Pension Plan, says that the TPA is "not a rigid investment model but a mindset."

"The change of mindset is that we need to start thinking that the people that should be responsible for building the asset allocation are the professionals that the board hired, and the board needs to make sure that these portfolios are within some sort of risk," Elkamhi said in an interview. "[TPA] never said it's going to make a better return."

TPA, the paper explains, treats the portfolio more like a single balance sheet. Rather than siphoning off each asset class to measure its performance against itself, TPA evaluates each investment decision in terms of its marginal contribution to the total portfolio. The goal is to break down traditional divisions between, for example, the PE team and the fixed-income team, to ensure that they're managed together, rather than as separate sleeves of the portfolio.

"It's all smoke," said Keith Ambachtsheer, director emeritus of the Toronto-based International Centre for Pension Management. "Everything that I have seen, spoken or written about the total portfolio approach as some radical new thing is bunk. It's always been that way."

Ambachtsheer argued that, despite the hype, the TPA model is no different than modern portfolio theory that pension funds and other institutional investors have been using since the 1970s.

"We've always done total portfolio approach because we've always had a total portfolio and made adjustments at the margin to make it better," he said.

Broadly, industry proponents argue that TPA solves some of the limitations of the strategic asset allocation model, particularly its assumptions that risk premiums can be forecasted over longer time-horizons, asset class portfolios can be treated independently and managed separately from each other, and that portfolio rebalancing is always doable—a truth disproven by the denominator effect that plagued institutional portfolios in 2021 and 2022.

"You actually have to be able to demonstrate that [TPA] is really adding value," said Ambachtsheer. "If you can do that, good for you. But until I see the numbers, color me a skeptic."

IN LP NEWS

UC CIO's paycheck: Amid strong returns, the University of California gave its CIO a $2 million pay package for FY 2025, Pensions & Investments reported.

Canadian pension's energy play: La Caisse, the investment firm that allocates on behalf of the Caisse de dépôt et placement du Québec, invested C$1 billion in Edify Energy, an Australian renewable energy and battery storage company.

GRAB BAG

Foreign LPs and corporations are pulling back from China.

China has one of the most developed private capital ecosystems in the emerging markets. But investor activity in the country has significantly declined over the past year, as trade tensions between the US and China have deepened, according to our **2025 Greater China Private Capital Breakdown**.

Instead, LPs are moving their capital to other markets that are more aligned with Western interests, like Japan and Vietnam.

HEARD AT PITCHBOOK

In 2024, the slow pace of fundraising has resulted in a reduction of dry powder for the first time since 2010, according to PitchBook's **Q2 2025 Global Private Market Fundraising Report**.

Dry powder allows fund managers the flexibility to deploy capital opportunistically into new investments or to support portfolio companies during growth initiatives or times of distress. Although there is no strict timeline for deployment, aging dry powder—older than about three years—indicates that capital is not flowing into new businesses, and may cause asset owners to hesitate to fund new vehicles.

While previous declines in dry powder were relatively small in absolute terms, the drop from 2023 to 2024 was $322.8 billion, representing 2% of 2024 private capital AUM. The proportion of older dry powder is growing, which is affecting LP investment decisions that could come in to refresh capital.

What's more, PE fundraising through H1 2025 is tracking for a very weak full-year total. In VC, we are seeing the bulk of dry powder sitting in funds between two and five years old, as GPs are slowing deployment to respond to portfolio companies' cash needs amid an uncertain macro backdrop.

However, not everything is dark on the horizon. We see an improved outlook ahead as fundraising in 2025 is on track to match or exceed 2024, carried by capital gathering in private debt, real assets and secondaries.

—Juan Mier, PitchBook lead analyst, fund strategies

WHAT ELSE WE'RE READING

Financial Times: Private capital groups are warning against a potential wave of mis-selling claims from retail investors as the space grows.

Bloomberg: Wall Street banks are set to arrange over $20 billion of M&A debt as the dealmaking revival begins.

The Economist: How the UAE can gain a foothold in AI.

Capital Pool is written by Jessica Hamlin and edited by Heather West.

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