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TWO SIDES OF THE SAME COIN: INTEGRATING TOTAL PORTFOLIO APPROACH WITH CAPSA'S RISK GOVERNANCE

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For Canadian pension plans, long-term success depends on treating return and risk as two sides of the same coin: Total Portfolio Approach drives opportunity, while CAPSA Guideline 10 provides the governance and guardrails to pursue it responsibly.

Investment professionals will be familiar with the phrase, “risk and return are two sides of the same coin.” Managing a pension plan involves balancing both variables: taking enough risk to earn the returns needed for long-term plan sustainability, while managing risk prudently to safeguard expected benefits for the future.

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IN RECENT YEARS, TWO CONCEPTS HAVE EMERGED THAT DEMONSTRATE THIS DYNAMIC FROM DIFFERENT ANGLES IN THE CANADIAN PENSION CONTEXT:

The Total Portfolio Approach (TPA): a holistic investment philosophy that treats all assets as one integrated pool, aiming to maximize risk-adjusted returns at the total fund level.

Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline No. 10: a principles-based supervisory guideline for pension plan risk management in Canada (published in 2024), which sets expectations for holistic, enterprise-wide risk governance by plan administrators.

Although on one hand, TPA and Guideline 10 address different dimensions, returns and investment strategy on one side, and risk control and governance on the other end, they are complementary frameworks built on shared principles. Both call for a comprehensive view across risk and asset classes, clearly defined objectives and tolerances, and disciplined governance through delegation and oversight.

EXPLORE WITH US

We welcome your perspectives and questions on these important themes. If you have insights to share or topics you'd like to explore further, please contact your client manager to arrange a discussion. Your contributions and curiosity will help advance collective understanding and drive meaningful growth across the industry.

THE TOTAL PORTFOLIO APPROACH:
HOLISTIC INVESTMENT FOR BETTER OUTCOMES

TPA is an investment and portfolio construction approach that has gained momentum among large pension funds and asset owners in Canada and have attracted attention globally. It developed among large leading pension funds such as HOOPP, CPPIB, OTPP and others as part of the “Canadian model” of in-house pension investment management[1]. Under TPA, the fund is managed as a single coherent unit aligned to overarching goals, such as achieving a target return or meeting pension liabilities, rather than as an aggregation of independent strategies for each asset class.

In practice, adopting TPA often means dissolving traditional silos. Asset classes, including but not limited to cash, equities, credit, real estate are not managed in separate buckets with separate targets, rather, every investment decision is judged by its contribution to overall portfolio risk and returns. Asset owners employing TPA use current market conditions and available opportunities to shape the entire portfolio’s risk and return mix.

TPA encourages flexible and dynamic asset allocation, guided by portfolio-wide risk appetite and objectives[2]. Governance under TPA involves coordination - often via a central investment committee or CIO-led team - with clearly defined delegation. While the Board is likely to set high-level strategy and risk limits, it can empower management to make real-time trade-off decisions, including delegation within that framework through TPA. The focus shifts from static or periodically updated asset mix – the traditional Strategic Asset Allocation model – and it is reviewed periodically for continuous opportunity management, always asking, “does this move help the total fund achieve its mission given current risks and market conditions?”

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CAPSA GUIDELINE NO. 10:
HOLISTIC RISK AND GOVERNANCE FRAMEWORK

Guideline No. 10 carries substantial weight as a regulatory expectation. It addresses the risk side of the coin, outlining how pension plan administrators should structure their comprehensive risk management frameworks.

Guideline 10 calls for a four-step risk process: "Identify, Evaluate, Manage, and Monitor", applying to all material risks facing a pension plan including operational risks. It calls for an enterprise-wide view of risk. Plan leaders are expected to look beyond only investment risks to incorporate everything from funding and liability risks to operational, cyber, ESG, third-party, and governance risks in one overarching framework. Risk appetite must be defined in writing, including overall risk tolerance and specific risk limits, and integrated into the plan's governance and policy documents, such as the Statement of Investment Policies and Procedures (SIPP).

This means Boards and plan administrators are expected to articulate how much risk, and what types of risk, they are prepared to accept in pursuit of the plan's objectives. This guideline applies proportionality: risk management practices should be scaled to the plan's size and complexity. For a small pension plan with externally managed investments, the program can be simpler, for a large plan with internal and externally managed portfolios, regulators expect a more sophisticated "three lines of defense" systems (separating front-line investment teams from independent risk oversight).

Just like TPA, delegation is considered. CAPSA 10 affirms that plan administrators can rely on management, committees, and expert service providers to carry out tasks while supporting ultimate accountability. It states that delegating duties (e.g., to investment managers or advisors) does not relieve the administrator of fiduciary responsibility, urging clear mandates, due diligence, and continuous monitoring of all delegates[3].

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SHARED FOUNDATIONS:
INTEGRATED VIEW AND DELEGATION

TPA and CAPSA's Guideline 10 share a common premise: a pension plan is a complex system, and managing it well requires an integrated, system-wide perspective. They both reject siloed decision-making. TPA insists no asset class or deal should be considered in isolation from its effect on total portfolio risk/return, CAPSA 10 says no category of risk (investment, operational, etc.) should be managed in a vacuum, separate from the plan's overall risk profile. Both also depend on explicit plan objective and risk definition. Under TPA, the pension Board and CIO agree on total fund objectives and a risk budget (for example, factor exposure, tilts or bias, leverage and concentration) which then guides all investments. Under CAPSA 10, the plan administrator must formalize the plan's risk appetite and tolerances, often expressed in terms of metrics like funding ratio thresholds or maximum loss limits. In practice, these two should coincide. A pension plan's investment strategy (TPA) will be most effective when it operates within a set of risk parameters (Guideline 10's risk appetite) that the Board is comfortable with and has documented.

Both frameworks also value using forward-looking risk tools: scenario analysis and stress testing. TPA portfolio managers regularly simulate how their total fund might perform under adverse scenarios, such as a major recession or financial crisis) to adjust allocations proactively. CAPSA 10 expects plan administrators to do the same at the plan level, including stress testing the funding position and operations under severe conditions to ensure resilience and prepare contingency plans.

Finally, the governance principles match closely. Delegation with oversight is a key theme for both TPA and Guideline 10. TPA demands a strong investment governance structure, where the Board entrusts skilled teams and/or external managers with operational decisions, but retains control via clear mandates, limits, and oversight reporting. CAPSA 10 mirrors this - delegating tasks does not equal transferring fiduciary duty. A fundamental fiduciary obligation of the Board is to maintain effective oversight of those acting on its behalf.. In essence, both sides of the figurative coin require the same solid metal, an engaged and accountable governing fiduciary body that sets direction and monitors results, even as experts help carry out day-to-day functions.

COMPLEMENTARY ROLES:
RETURN VS. RISK FOCUS

TPA and CAPSA 10's differences largely reflect their distinct primary areas of focus, return optimization versus risk governance, which are complementary rather than conflicting.

RETURN VERSUS RISK EMPHASIS:

TPA is fundamentally about investment and realizing a plan's objectives. Its purpose is to improve risk-adjusted returns by unlocking diversification and expanding agility beyond what a static or periodically updated asset mix can achieve. Guideline 10, meanwhile, is about prudent risk oversight, ensuring the plan doesn't take on risks that could jeopardize benefit security or violate fiduciary standards. These priorities are two sides of the same coin; a well-run pension fund must generate strong returns and manage risks to stay within acceptable bounds. Seen this way, TPA's dynamic pursuit of opportunities can be the "offense" while CAPSA's framework provides the "defense". When combined, they form a complete strategy for long-term success.

SCOPE:

TPA's playing field is the investment portfolio and related financial levers, such asset mix, exposures, funding level risk, etc. CAPSA 10's arena is larger, encompassing every risk that could affect plan administration: investment risk plus operational risk, funding and liquidity risk, data breaches and cyber security, service provider relationship risks, regulatory compliance, and more. This difference in scope means a TPA-minded CIO should collaborate closely with the CRO and Board to make sure all risks, not just investment risks, are addressed. For example, a portfolio strategy that improves returns by adding leverage or complex instruments might require consideration of new operational or counterparty risks; CAPSA 10 would require acknowledging and mitigating those risks in its risk framework, perhaps through stricter controls or more expertise. Thus, TPA doesn't eliminate the need for broader risk management, rather it fits inside it. Conversely, CAPSA 10 isn't trying to second-guess investment strategy. Instead, it sets out the outer guardrails, such as risk limits and governance standards, within which strategies like TPA can flourish responsibly.

PRACTICAL IMPLICATIONS:
BRIDGING STRATEGY & GOVERNANCE

For Canadian pension Boards and executives, the alignment between TPA and CAPSA 10 offers a path to strengthen both performance and compliance narratives.

BRINGING TOGETHER INVESTMENT AND RISK FUNCTIONS:

In organizations adopting TPA, investment and risk professionals should work hand-in-hand, collaborating closely. The Board (or plan administrator) might charter joint sessions where the Chief Information Officer (CIO) and Chief Risk Officer (CRO) present an integrated view: how the current total portfolio positioning (via TPA) stands relative to the plan's risk appetites, limits, and funding goals (per CAPSA 10). Such cross-functional dialogue helps ensure that dynamic portfolio decisions are still within prudent boundaries, reinforcing that the plan is simultaneously pursuing returns and actively controlling risk. This integrated approach shows to regulators and stakeholders that the plan's governance processes unite risk management and investment strategy in service of beneficiaries.

STRENGTHENING FIDUCIARY OVERSIGHT:

Both TPA and CAPSA 10 remind us that the buck stops with the fiduciary body, whether it's a Board of Trustees, an Investment Committee, or another designated plan administrator. That means these bodies need line-of-sight into both investment returns and risk exposures. Boards can set up reporting routines that include not only performance updates on the total fund, which is common in a TPA context, but also consolidated risk reports in accordance with CAPSA 10, demonstrating metrics such as funding levels, asset-liability mismatches, liquidity, and key risk indicators. This integrated reporting helps Board members determine, all in one view, whether the plan's risk/return is tracking to objectives, which is exactly how the figurative coin's two sides should be considered - together; never apart.

ALIGNING POLICIES AND LANGUAGE:

The language of TPA and CAPSA 10 can align policy documents and governance charters. For example, a plan's SIPP or investment policy could explicitly reference the plan's risk appetite and risk limits (as per CAPSA), and state that the portfolio will be managed using a Total Portfolio Approach (as per investment beliefs). This makes it clear that the investment strategy is an integral part of the plan's risk management framework, not a separate track. It also provides a strong narrative for regulators that the plan is actively operationalizing Guideline 10's principles through its advanced investment approach.

AUTOMATION DELIVERS GREATER VALUE WHEN APPLIED AT THE APPROPRIATE LEVEL OF AGGREGATION, WITH TOOLS PROVIDING THE FLEXIBILITY TO BUILD THAT AGGREGATION—SUPPORTED BY CORRESPONDING CHANGES IN ORGANIZATIONAL STRUCTURE.

COLLABORATIVE CULTURE AND EDUCATION:

Finally, aligning TPA with the mindset of Guideline 10 requires a cultural commitment to collaboration and education across the organization. Board members, C-suite, and operational teams need a common understanding of both risk and return aspects, perhaps offered through training or workshops, to provide a better appreciation for the flexibility that TPA can provide to an investment team, and the rigor that the risk framework can bring to TPA. Canadian pension leaders often note that this alignment not only helps with regulatory comfort, but also leads to better internal decision-making as decisions are likely to get challenged from both performance and risk angles. This alignment results in more robust outcomes, benefitting plan beneficiaries.

MATCHING OVERSIGHT CADENCE TO DECISION CADENCE:

TPA's shift from periodic rebalancing to continuous opportunity-driven decisions changes the tempo at which risk is borne and Guideline 10's monitoring expectations need to keep pace. Rather than relying solely on scheduled Board reporting, plans should establish pre-authorized risk ranges within which management can act, paired with exception-based escalation protocols that surface breaches or near-breaches immediately. This lets the Board retain real oversight without becoming a bottleneck on the fund's ability to act on opportunities.

By leveraging TPA's holistic, objective-driven investment strategy and embedding it within a strong risk governance framework as outlined by CAPSA 10, Canadian pension funds have an opportunity to transform regulatory guidance into a strategic advantage. These approaches reinforce one another, giving plan stakeholders confidence that their retirement funds are being managed with both ambition and caution in balance.

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QUESTIONS WORTH CONSIDERING

As plans evolve toward more integrated approaches, the alignment between investment (TPA) and risk (CAPSA) becomes a practical test of whether strategy and risk are truly being managed as two sides of the same coin.

Against this backdrop, plan sponsors, fiduciaries, and executives may find it useful to reflect on a few key questions:

IS YOUR RISK FRAMEWORK STILL FIT FOR PURPOSE?

Legacy, silo-based risk frameworks may not adequately capture the interconnected exposures created by a total portfolio approach.

WHAT DOES CAPSA EXPECT FROM A TPA ADOPTER?

Adopting TPA does not reduce regulatory expectations - if anything, it increases the need for clearly defined risk appetite, oversight, and documentation.

WHAT ARE THE DATA CHALLENGES WITH TPA?

Without timely, consistent, and cross-asset data, TPA can remain theoretical, limiting the ability to make fully informed portfolio decisions. The same data that enables real-time TPA decision-making is what Guideline 10 requires for continuous investment risk monitoring. Investing in data capabilities serves both sides of the same coin at once, rather than be a cost borne by investment or risk functions separately.

WHO OWNS RISK UNDER A TPA?

While responsibility is distributed across CIOs, CROs, and investment teams, ultimate accountability remains with the Board and plan administrator.

HOW EFFECTIVELY DO YOU INTEGRATE NON-INVESTMENT RISKS INTO PORTFOLIO STRATEGY?

Operational, liquidity, and counterparty risks can materially impact outcomes and must be considered alongside return-seeking decisions.

ARE YOUR REPORTING FRAMEWORKS PROVIDING A TRULY INTEGRATED VIEW OF RISK AND RETURN?

Fragmented reporting prevents Boards from assessing whether the plan is operating within its defined risk/return objectives.

IS YOUR ORGANIZATION CULTURALLY READY FOR A SYSTEMIC OR HOLISTIC MINDSET LIKE TPA OR CAPSA?

Moving from asset-class silos to a total portfolio perspective requires changes in incentives, collaboration, and decision-making norms.

FOR MORE INFORMATION

If you have any questions or to learn more about the themes discussed, please reach out to your CIBC Mellon Client Manager.

FOOTNOTES:

((CAPSA), n.d.) https://documents

1 worldbank.org/curated/en/780721510639698502/pdf/121375-The-Evolution-of-the-Canadian-Pension-Model-All-Pages-Final-Low-Res-9-10-2018.pdf

2 https://www.thinkingaheadinstitute.org/content/uploads/2020/11/Total_Portfolio_Approach-1.pdf

3 https://www.capsa-acor.org/Documents/View/2101

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