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# Fund managers feel pressure of TPA approach

15 DECEMBER | By Laura Dew  
2025 (/authors/laura-dew)

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**Targeting outperformance within a specific asset class is “no longer sufficient” when it comes to fund development as asset allocators are increasingly total portfolio approaches (TPA).**



A report from Clearway Capital detailed how the TPA is being frequently used by asset allocators and wealth managers, having already been used by the Future Fund.

The TPA approach requires portfolios to be managed holistically rather than purely on outperformance of a benchmark, meaning every allocation must justify its impact on total portfolio risk.

When it comes to the impact this has on fund managers, it means distributors are expected to be able to explain how a strategy can enhance a multi-asset portfolio or how it can solve a portfolio need such as improving liquidity or filling diversification gaps.

Their strategy should be clearly articulated as well as its core risk drivers with performance being only one element of a fund nowadays.

This should benefit those fund managers with large passive or implementation-orientated funds or highly-skilled alternative managers.

“Fund managers are expected to define their functional role (e.g. growth engine, diversifier, inflation hedge, liquidity buffer) rather than relying on an asset-class label. Consequently, a high yield credit manager may compete against core equities, liquid hedge funds, real assets, or internal teams for the same risk budget. Lastly, alpha-beta separation becomes essential.”

“Allocators will only pay for demonstrable, uncorrelated alpha and will reject strategies whose returns can be explained by cheap beta.

“This requires distribution professionals to understand cross-asset risk/return frameworks and matrices, interpret factor-exposure reports and confidently discuss how a strategy is expected to behave in market regimes such as inflation spikes, risk-off shocks or geopolitical dislocation.”

A greater depth of data and analytics is also expected including tools to measure factor exposure, liquidity ladder assessments, structural sources of return, implied portfolio impact and expected drawdown characteristics and this is expected to be in place from the outset.

This will entail fund managers upgrading their analytics capabilities and Clearway Capital noted several alternative asset managers had already been “screened out” by asset allocators for failing to have sufficient data.

The report also noted this use of TPA will put “significant downward pressure” on fund managers who will be forced to cut costs.

“TPA adoption places significant downward pressure on the margins of traditional long-only and ‘benchmark-hugging’ managers as allocators become more fee-sensitive and less willing to pay for undifferentiated active management.

“This is likely to lead to tougher fee negotiations, fewer external mandates and perhaps a shift from vanilla public market exposure toward passive or internal management.

“Given that a large portion of fund manager expenses such as technology, compliance, data and personnel tend to be fixed, reducing costs fast enough to maintain profitability might prove difficult.”

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## AUTHOR

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Laura Dew is editor at Money Management. Prior to joining MM, she spent five years working at Investment Week in the UK, covering asset and wealth management. **View articles by Laura >**

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Total monthly ETF inflows declined by 28 per cent from highs in November with Vanguard's \$21bn Australian Shares ETF faring worst in outflows.



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Schroders has appointed a fund manager to its \$6.9 billion fixed income team who joins from Macquarie Asset Management.



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### Evidentia chief investment strategist Lim to retire (/news/funds-management/evidentia-chief-investment-strategist-lim-retire)

Evidentia's chief investment strategist Nathan Lim has announced his retirement after a 30-year career.



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(<https://investmentcentre.moneymanagement.com.au/factsheets/ah/psh1/domacom-dfs-mortgage>)

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2 Loftus Peak Global Disruption Fund Hedged 110.90

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3 SGH Income Trust Dis AUD 80.01

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5 Smarter Money Long-Short Credit Investor USD 67.63

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