

Maximizing client-focused outcomes in a Total Portfolio Approach: The role of currency

January 2026

Michael Sager, Ph.D., Managing Director & CIO, Multi-Asset & Currency Management
Giuseppe Pietrantonio, CFA, MBA, Director, Currency and Multi-Asset Solutions
Lilly Price, CAIA, CIM, CIMA, Executive Director and Head of International Distribution
Patricia Tiralongo, CFA, Business Development Officer & Managing Director



Key takeaways

- Managing portfolios holistically through a Total Portfolio Approach (TPA) is expected to lead to better returns and risk management compared to traditional Strategic Asset Allocation (SAA).
- Purposeful currency strategies within a TPA may help reduce risk, boost returns, and improve portfolio diversification.
- TPA's flexible, forward-looking allocation enables investors to adapt to changing markets and optimize outcomes.
- Successful TPA adoption requires committed leadership, effective governance, and robust systems to support integrated decision-making.

Introduction

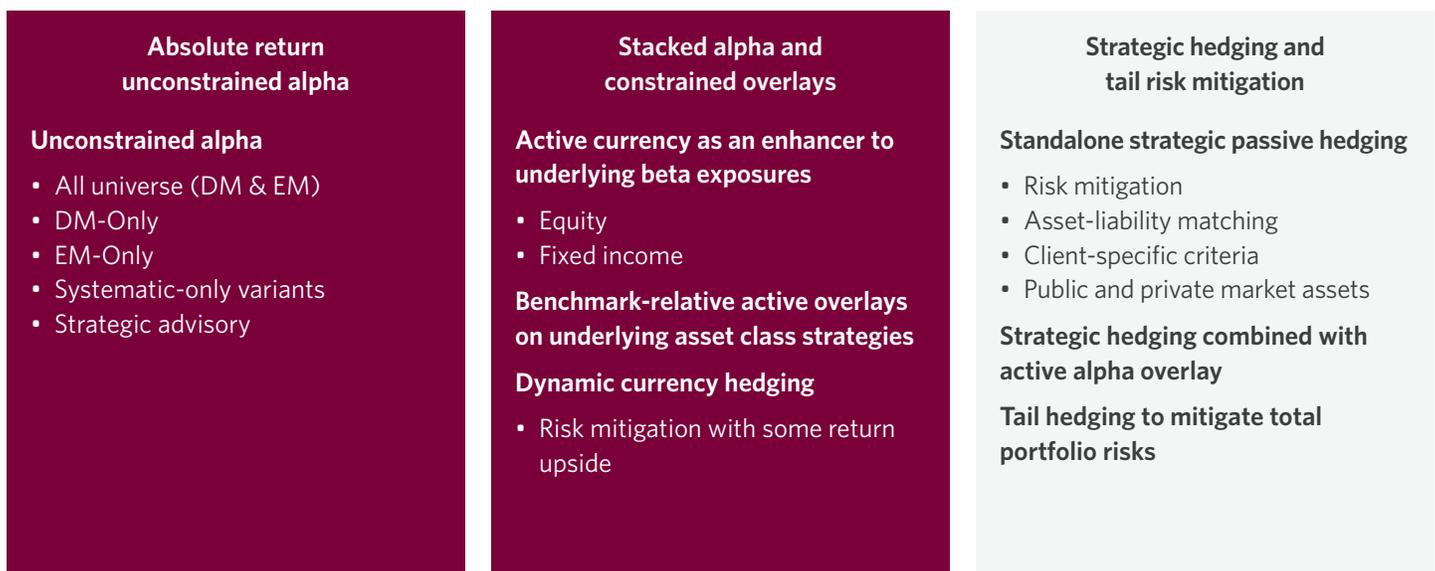
As the complexity of global capital markets continues to increase, a Total Portfolio Approach (TPA) to portfolio construction has gained prominence amongst leading global pension plans and sovereign wealth funds. High profile adopters include CalPERS in the US, Canada's CPP Investments pension fund, Australia's Future Fund sovereign wealth fund, and Singapore's GIC, also a sovereign wealth fund. Beyond these mega-investors, TPA has broad applicability across the spectrum of asset owners.

An evolution from traditional Strategic Asset Allocation (SAA), TPA shifts the emphasis of capital allocation decision-making away from traditional asset class silos to a holistic, whole-of-fund view. It refocuses assessment of investment performance from benchmark-relative comparisons to total portfolio performance objectives. Both enhancements allow for a clearer understanding of portfolio risks and opportunities, true competition for capital amongst contending uses, greater agility in the face of shifting economic risks, and achievement of superior long-term outcomes for investors and beneficiaries.

A recent Thinking Ahead Institute study of 26 leading global asset owners, representing over US\$6 trillion in assets under management reports that funds employing a TPA outperformed those using a more traditional strategic asset allocation (SAA) by 1.8% per annum over the past 10 years¹. The study also revealed that 36% of asset owners using TPA achieved superior returns, supporting the assertion that the dynamism and integrated nature of TPA are valuable in increasingly complex environments. Furthermore, the trend towards TPA is accelerating, with the number of SAA-focused funds halving over seven years and most participants now maximizing or increasing their use of TPA.

Currency gains particular prominence within a TPA. At CIBC Asset Management, we think in terms of a currency ecosystem encompassing myriad opportunities and risks relevant to most investors (Chart 1). On one hand, currency risk is inherent in every investor portfolio that has exposure to foreign assets. TPA emphasizes the importance of intentional awareness of this risk, particularly during periods of significant negative foreign equity tail risk. On the other hand, currency is a capital efficient source of diversifying alpha. As TPA's focus on purposeful risk budgeting continues to advance, active currency, as well as other non-traditional investment solutions, have an opportunity to make important contributions to overall portfolio performance.

Chart 1 - A comprehensive client-focused currency ecosystem



From SAA to TPA: The evolution of outcome-oriented portfolio construction

Traditional SAA resides within a world of silos and benchmarks. It defines the investment landscape in terms of traditional asset classes. Public equity and fixed income are foundational building blocks, from which the search for diversification commonly sub-divides into domestic and international, large and small cap, investment grade and high yield segments. Private markets and non-traditional solutions—such as active currency management, niche emerging strategies and hedge funds allocations—are considered as distinct assets classes evaluated on their expected ability to deliver differentiated sources of risk and return. Performance is usually considered in terms of value-add relative to benchmark outcomes, rather than in terms of purposeful plan-specific absolute outcomes. Changes to a strategic asset allocation are rare and typically driven by structural changes in expectations for long-term asset class returns. The ability to respond dynamically to changing market opportunities and investment convictions is low.

Portfolio compartmentalization and construction according to asset class delineations appears straightforward and intuitive. In reality, it is inherently complex given the range of overlapping risks and opportunities that each asset class embeds. This risks duplication at the total portfolio level, and either unintended concentrations or over-diversification— credit loads largely on the same economic risk factor as public equity; infrastructure overlaps with fixed income; and real estate delivers a risk profile that resembles a combination of equity and fixed income. Yet, scarce investment resources are frequently organized in ways that encourage in-house teams to construct artificial, and sub-optimal, moats protective of asset class specializations.

In practice, traditional SAA can often result in portfolios that appear diversified at the surface but possess hidden overexposure to specific factors, explaining why diversification has sometimes “failed” during historical drawdowns. In actuality, many portfolios weren’t as diversified as believed. TPA helps resolve this by incorporating the covariance between risk factors.

TPA reframes the landscape allowing investors to better manage risk and generate returns, and to make better informed governance decisions. It views portfolios as single, integrated entities that benefit from transparent governance and accountability. Holistic decision-making allows clear prioritization of long-term strategic objectives, such as meeting specific mandated total return targets for Endowments and Foundations or funding liabilities for pension plans, over more common benchmark-relative value-add performance metrics.

Chart 2: TPA represents an important improvement on traditional SAA

Traditional asset allocation

- Focuses on the individual asset classes or silos
- Emphasizes benchmark-relative performance
- Static allocation based on historical data
- Risks managed at the asset-class level

Total portfolio approach

- Focuses on the portfolio as a whole
- Emphasizes achieving specific outcomes
- Dynamic allocation based on forward-looking insights
- Risks managed at the total portfolio level

A focus on absolute performance targets encourages the notion of true competition for capital—resources are allocated to those uses that deliver the largest expected contribution to desired outcomes. At CIBC, we assess this competition using Purpose Scores. This approach promotes innovative thinking by challenging traditional investment practices and encouraging exploration of new strategies. Similarly, the resulting horizontal integration within a One Team construct dominates any legacy desire to sustain pre-existing vertical silos.

TPA investments are viewed in relation to their ability to extract performance from a broad set of rewarded risk factors that transcend the limits of narrowly defined and delineated asset classes. Commonly identified factors include economic growth, inflation, duration, credit, liquidity, and the strategic management of risk from climate change and geopolitics. Diversification is identified in terms of covariance between risk factors rather than asset classes. This allows for a more nuanced analysis of portfolio risk. For instance, a TPA recognizes that all equities do not necessarily contribute similarly to portfolio risk, that equity risk comes in many forms across public and private markets and across geographies and regions, and that equity risk often interacts with other risk factors in complex ways to generate a mixture of desired and unintended risks. Adopting a TPA also facilitates the inclusion of non-traditional alternative assets that offer unique growth prospects not typically found in public markets by considering their role in the broader portfolio context outside of the conventional “60/40” blueprint. And by focusing on the

total portfolio, a TPA framework allows allocators to readily utilize structuring techniques and solutions to embed resilience into portfolios against a multitude of unexpected shocks and economic disruptions.

TPA encourages dynamic allocation founded on purposeful forward-looking insights. This focus allows investors to respond more effectively to changing market conditions or new opportunities to enhance investment outcomes. For example, an allocation to traditional bond portfolios is often, correctly, considered a low risk diversifying source of income. At points in the economic cycle, however, these income and risk characteristics become less evident; for instance, in August 2020 the yield on a 10-year US Treasury bond traded close to 50 basis points versus its long-term estimated equilibrium of 4.25%. The expected long-term return of an allocation to government bonds was, at least temporarily, challenged. Dynamically adjusting capital allocations away from steady state allocations over periods that typically last several quarters or more can improve investor outcomes without a risk for overconfidence in one's ability to tactically time short-term market direction.

Currency risk within a TPA framework

Purposeful currency management plays an important role within a total portfolio framework. Implementing a clearly defined currency strategy can help manage portfolio risk, increase expected returns, and achieve specific investment objectives including liquidity enhancement.

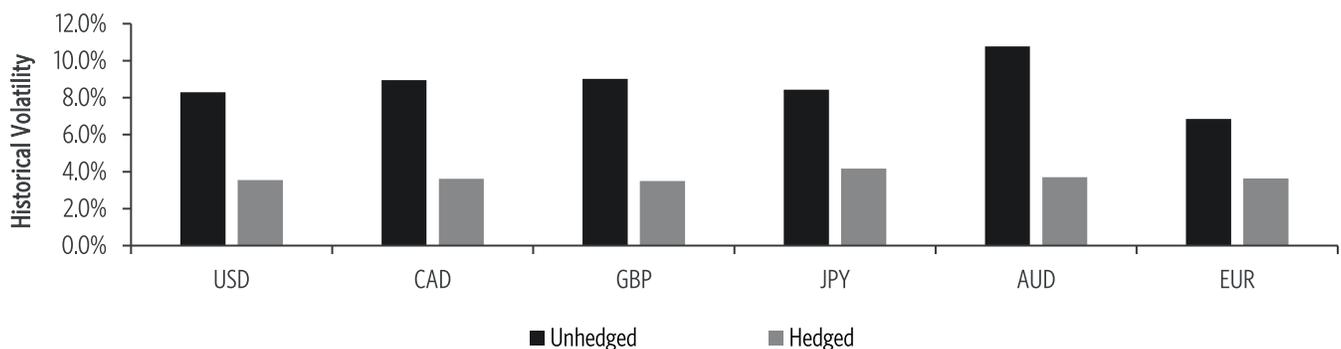
1. Hedging inherited currency risk

Currency risk arises when a portfolio invests in assets denominated in foreign currencies. Currency returns can either enhance or erode local returns on these investments, trigger mismatches between assets and liabilities, and also present important diversification opportunities for the total portfolio. Currency fluctuations are also often an important source of portfolio volatility. For all these reasons, purposeful decisioning around an appropriate currency hedging strategy is relevant to most investors. We recommend a selective approach to currency hedging that reflects specific attributes of each portfolio allocation.²

a. Global fixed income: purposefully hedge

Full hedging is most appropriate for fixed income allocations, where currency fluctuations can dominate the volatility of underlying exposures (Chart 3).

Chart 3 - Currency makes a substantial contribution to annualized fixed income volatility



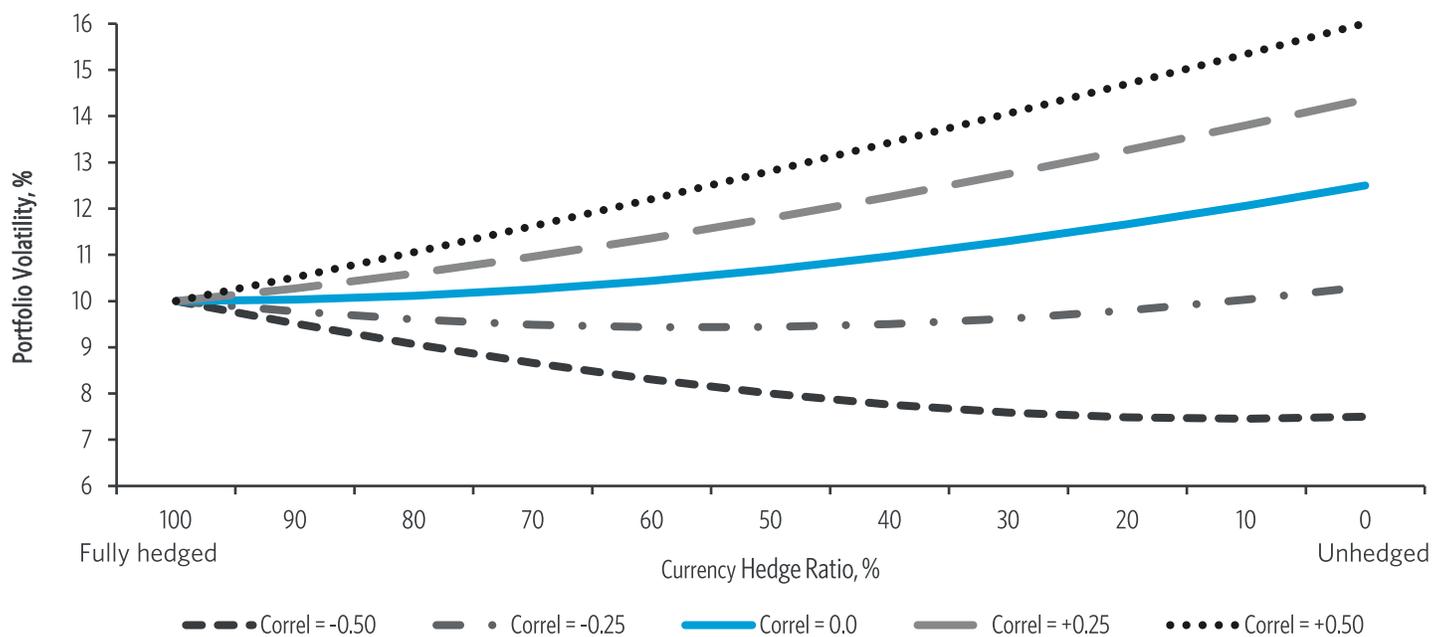
Source: The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg Finance L.P. Global Bonds is defined at the FTSE World Global Bond Index. Date range from January 2005 to December 2025.

Through hedging, the portfolio’s exposure is refined to focus exclusively on the credit and duration risks inherent to global bonds. This targeted approach not only enhances the clarity of risk attribution but also aligns the exposure more closely with its intended purpose. The result is a better reward-to-risk profile without sacrificing the stabilizing qualities global bonds are meant to deliver.

b. Developed market equities: Hedge selectively

Hedging policy is typically more nuanced for public market equity allocations. Differences in the treatment of various Developed Market (DM) equity exposures is often determined by a comparison of the characteristics of the domestic economy in which the investor is domiciled and each DM peer economy. Importantly, even for those DM equity exposures that merit an unhedged benchmark in normal market conditions, currency hedging becomes particularly relevant in periods when investors attach a higher risk than normal to a strengthening in the domestic currency concurrent to a decline in one or more foreign equity markets. This was the case in the first half of 2025, when foreign investors feared a concurrent decline in US equities and the US dollar in response to the US tariff war and other policy initiatives. A TPA framework enables purposeful dexterity around currency hedging.

Chart 4 – Optimal currency hedge ratios are dependent on correlations between local public equity & currency returns



Source: The information was prepared by CIBC Asset Management Inc. using the following third-party service providers’ data: Bloomberg Finance L.P. Global Bonds is defined at the FTSE World Global Bond Index. Date range from January 2005 to December 2025.

c. Emerging-market equities: Leave unhedged

Our approach to Emerging Market (EM) public equity exposure is more homogeneous than for DM. Since domestic interest rates in many EM countries tend to be substantially higher than domestic DM rates, the cost of hedging would be prohibitively high. In this case, unhedged makes sense.

d. Private markets: Customize by strategy

Similar to DM public equity exposure, decisioning around hedging of private market allocations is nuanced, reflecting myriad embedded risks. We typically recommend an unhedged approach to Private Equity, Infrastructure and Real Estate, due to the relatively high economic risk loading embedded in these allocations. This approach also avoids unforeseen cash flows—in periods when cash flows from hedging are negative, funding would be required from more liquid portfolio allocations—that would otherwise introduce liquidity risk into portfolios, as well as rebalancing risk during periods of drift from strategic allocations. This is

particularly relevant to private equity allocations that do not generate a consistent income stream. One important exception to our real asset hedging policy—relevant to closed-end fund structures—is that we recommend the hedging of assets designated to fund future capital calls, to maximize the probability that plans are able to fulfil episodic capital commitments.

We prefer to hedge Private Credit exposures. As a source of fixed income risk, hedging is expected to lower volatility in this segment of portfolios. The consistent income generated by these investments also reduces the need to source liquidity from elsewhere in the portfolio in the event that hedging results in periodic temporary losses.

2. Enhancing portfolio returns and diversification with active currency

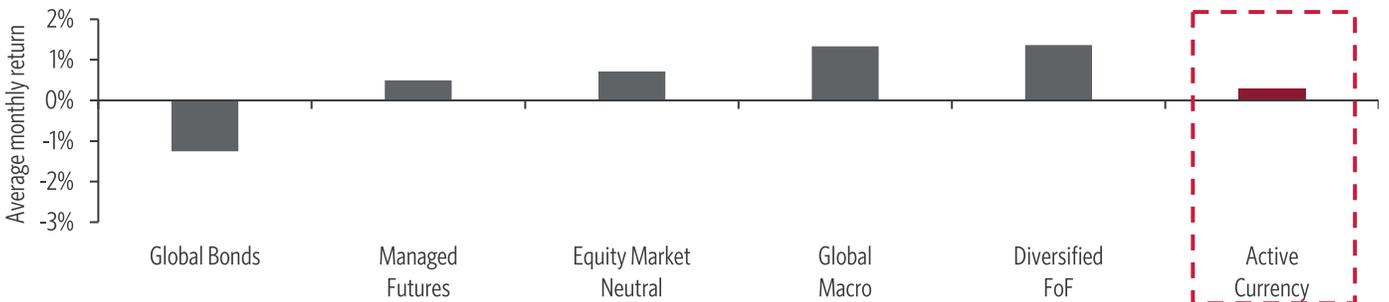
Distinct from a portfolio’s strategic hedging policy, active currency management has a strong track record as a liquid source of capital efficient returns that enhance the ability of TPA investors to achieve targeted performance outcomes. Currency returns are predictable using a combination of well-established fundamental and ESG risk factors and idiosyncratic, currency specific fundamental analysis. Using forward contracts to implement positions enables investors to efficiently exploit currency volatility without tying up portfolio capital or disturbing existing portfolio construction. The result is another layer of diversifying, liquid expected return that enhances the performance outcomes of the total portfolio, both in the good times and also during more challenging periods of market stress (Chart 5). While its notional nature means active currency does not always fit neatly into traditional SAA portfolio buckets, this capability can be highly valuable for plans seeking to meet overall return objectives, add liquidity, and increase diversification within a TPA.

Chart 5 - Active currency has added diversifying value, including in periods of market drawdowns

Average monthly return during periods of **Equity** drawdowns



Average monthly return during periods of **Fixed Income** drawdowns



Source: The information was prepared by CIBC Asset Management Inc. using the following third-party service providers’ data: Bloomberg LLC., CAIA. Maximum sample: January 1996 - December 2025. Bars plot average monthly performance during bottom quartile equity returns. Mnemonics: MSCI World - MXWD Index; Managed Futures - HedgFutr Index; Equity Market Neutral - Hedgneut Index; Global Macro - HedggIma Index; Diversified Fund of Funds - Hedgmstr Index; Active Currency - A CIBC AM unconstrained Absolute Return account with a Value-Added Objective of 2% p.a., a benchmark of zero, and a risk budget of 4%. Risk of all Liquid Alternative strategies defined as annualized standard deviation, set to 4% for comparability purposes. All data expressed in Canadian dollars. For illustrative purposes only. Past performance may not be repeated and is not indicative of future results.

Putting into practice

The shift toward a Total Portfolio Approach (TPA) is accelerating as organizations recognize its effectiveness in building portfolio resilience and aligning with long-term objectives. While the transition demands organizational commitment, leaders who invest in the necessary culture, governance, and systems will be well-prepared to navigate market volatility, capitalize on diverse opportunities, and achieve targeted client outcomes in a complex investment landscape.

Integrating purposeful currency management within a total portfolio framework offers significant benefits, including risk mitigation, capital-efficient return enhancement, and improved diversification. By thoughtfully allocating across a broad range of traditional and alternative investments, plans can build more resilient and higher-performing portfolios.

As market complexity and volatility challenge conventional strategies, adopting TPA empowers asset owners to respond dynamically to changing conditions and access capital-efficient sources of return, particularly through active currency management. Innovative alpha-oriented notional currency strategies, not easily categorized within traditional asset classes, provide additional income and critical liquidity overlays, aligning well with a TPA structure.

Now is the time for pension plan leaders to prioritize the culture, governance, and systems necessary for successful TPA implementation. By embracing a comprehensive approach to portfolio and currency management, plans can achieve superior risk management, diversification, and performance for their beneficiaries.

We encourage pension plans to partner with experienced managers, such as CIBC Asset Management, to leverage proven currency management expertise and position themselves for success in today's evolving investment environment.



About CIBC Asset Management

At CIBC Asset Management, we believe that every customized investment solution begins with research and rigour. We specialize in a variety of investment solutions such as equities, fixed income, currency management, liability-driven investments, asset allocation, and responsible investments.

Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset-class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

Contact us anytime

To learn more about CIBC Asset Management and our investment solutions, please contact your CIBC representative. For more insights, connect with us on [LinkedIn](#).

¹ top1000funds.com/2024/08/study-gives-evidence-to-value-add-from-tpa-over-saa/#:~:text=The%20funds%20that%20take%20a,and%20it%20did%20it%20well

² Our discussion of currency hedging focuses on volatility minimization as a primary objective. Investors may have alternative objectives, including asset-liability matching, which may lead to different hedging policy conclusions.

Hedging: the offset or reduction of the risk associated with all or a portion of an existing investment or group of investments. Cross-hedging is permitted as long as there is a high degree of correlation between changes in the market value of the investment or group of investments to be hedged and the hedging instrument. Creating effective exposures to certain markets: replication of equity, fixed income, money market, currency or other indices or securities, in order to reduce transaction costs and achieve greater liquidity. Facilitating the investment 15 For Internal Use Only management process: increase the speed, flexibility and efficiency in the investment management operation of the client account. Enhancing returns: benefiting from a lower cost or locking-in of arbitrage profits, except for private client accounts.

The views expressed in this material are the views of CIBC Asset Management Inc. as of December 2025 unless otherwise indicated, and are subject to change at any time. CIBC Asset Management Inc. does not undertake any obligation or responsibility to update such opinions. This material is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice; it should not be relied upon in that regard or be considered predictive of any future market performance, nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this material should consult with their advisor. The material and/or its contents may not be reproduced without the express written consent of CIBC Asset Management Inc. Past performance may not be repeated and is not indicative of future results.

Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or other similar wording. In addition, any statements that may be made concerning future performance, strategies, or prospects and possible future actions taken by the fund, are also forward-looking statements. Forward-looking statements are not guarantees of future performance. These statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results and achievements of the fund to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market, and business conditions; fluctuations in securities prices, interest rates, and foreign currency exchange rates; changes in government regulations; and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. CIBC Asset Management Inc. does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise prior to the release of the next management report of fund performance.

"Bloomberg®" is a service mark of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by CIBC Asset Management Inc.. Bloomberg is not affiliated with CIBC Asset Management Inc., and Bloomberg does not approve, endorse, review, or recommend any CIBC Asset Management Inc. products.

* The CIBC logo and "CIBC Asset Management" are registered trademarks of CIBC, used under license.