

Pension giants' portfolio shift fuels private credit opportunity

by Lisa Fu

The heavyweight champion of US pensions, California Public Employees' Retirement System (CalPERS), is adopting a novel model of investing called the Total Portfolio Approach (TPA). The strategy has also been embraced by Singapore's sovereign wealth fund GIC.

These two are among a growing number of institutional investors shifting to a strategy that will likely see more capital entering private credit.

It has arrived at an opportune time. Many private credit managers are seeing individuals step away by selling listed business development company (BDC) shares and committing fewer dollars to their semi-liquid vehicles.

Institutions are still committing capital — and the adoption of TPA investing could inject further institutional capital into private credit, though it will increase competition.

"Broadly, [TPA] creates an opportunity for private credit," Anant Kumar, managing director and head of US credit research at Benefit Street Partners (BSP), told *Creditflux*. "Net, it is a positive, but it raises the bar."

The model removes asset class silos and requires every manager to compete for every marginal dollar. Investing teams are given flexibility to allocate capital as they see fit.

Entering the mainstream

The early adopters will prompt more LPs to embrace the approach, bringing it into the mainstream, while private credit players will face blistering competition, say market participants.

TPA is a dramatic shift from the strategic asset allocation model, where an institution's



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Head of US credit research
BSP

board of directors creates a diversified investment portfolio with allocation targets for each asset class. Under that structure, investing teams tasked with finding managers and strategies that fit each dedicated asset bucket are often constrained in how much they can commit to any single asset class. The TPA lifts this cap.

Institutions are still deploying to private credit on schedule. In fact, many plan to increase allocations to alternative credit over the next 12 months, according to a 2026 survey by BSP. Of the surveyed global institutions, three-quarters had a 5% exposure to the asset class.

A majority of the institutional

investors in the survey with private credit caps are seeking to lift that ceiling. TPA would eliminate the ceiling.

"In the TPA structure, you are opening up to potentially higher allocations if that private market strategy is adding more diversification benefits, more yield," said Ty Icten, senior analyst at Cerulli Associates.

Evaluating all strategies

Under TPA, if an investor is seeking to invest in fixed income, it will evaluate all types of fixed income managers, including private credit managers, rather than just turning to public fixed income strategies. An investor seeking protection against higher inflation may consider a private infrastructure fund that can take advantage of higher inflation in the long run.

"TPA opens up the debt and equity buckets of these institutions to private assets in competition for what has historically been 100% market share for public assets from traditional

asset managers," said Apollo CEO Marc Rowan on the firm's fourth quarter earnings call.

Niche strategies crowded out within the confines of a small alternatives bucket may now find more room to grow.

"Asset-based finance strategies could be big beneficiaries," said BSP's Kumar. "ABF has the lowest correlation with other asset classes... Under the old model, a CIO with a 10% alternatives pocket couldn't allocate much to ABF because most of it was consumed by private equity and private credit."

On the other hand, managers with easily commoditised strategies may struggle to win commitments, he added.

"It's going to be a net positive for the industry, but that doesn't mean it's a win for everyone," Kumar said. "It's not a free pass. You will see more dispersion."

For example, a TPA framework will expose direct lending strategies whose returns are highly correlated to the broadly syndicated loan market.

Similarly, managers which historically won allocations on the strength of relationships and stayed there due to inertia will face a tougher environment, as every dollar must now continually justify its place in the total portfolio.

"The TPA does add complexity," said Daniil Shapiro, director at Cerulli. "It does make benchmarking a lot more difficult."

"One of the biggest challenges in private credit is marks and valuations," Kumar said. "Under the TPA, CIOs need a unified view of portfolio risk. That means they will increasingly favour managers which have demonstrated accuracy and consistency in their marks over time. Valuation discipline will be critical."