Discussion of Abuzov, Andonov, and Lerner (2026)

"Overallocated Investors and Secondary Transactions"

Discussant: Sangmin Simon Oh (Columbia Business School)

SFS Cavalcade NA 2026

The Denominator Effect: 2008

Where the 'Denominator Effect' Lurks

Institutional Investors, Hit by Stock Losses, May Need to Cut Property Bets

By Anton Troianovski

Nov. 12, 2008 12:01 am ET

Aa Gift unlocked article

The "denominator effect" looms as the next force that could pressure the slumping real-estate market.

Falling stock prices are leaving institutional investors overexposed to real estate, which could trigger further declines in property values as some of the market's most-active players move to the sidelines to recalibrate their portfolios.

The Denominator Effect: 2025

22 MAY, 2025

More than half of pension funds exceed private equity allocation targets

By **Dylan Thomas** and **Neel Hiteshbhai Bharucha**

Pension funds were the institutional investors most likely to be over their target allocation to private equity as global economic shifts clouded the outlook for private equity fundraising.

More than half of government-, corporate- and union-sponsored pension plans showed an overallocation to private equity in their latest publicly available financial reports, according to S&P Global Market Intelligence data. Corporate pension plans had the highest number of overallocated sponsors compared to underallocated.

Very Important Question

Portfolio Choice: Mechanical drift drives real decisions

- Valuation movements push allocations away from policy targets even when doing nothing
- Rebalancing pressure becomes binding regardless of investor intent
- Any framework treating institutional allocations as the result of deliberate choices misses what's actually driving them

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Financial Stability: Fire-sale dynamics in private markets

- When public equities fall, many LPs hit allocation ceilings at the same time
- Simultaneous rebalancing in thin markets generates correlated selling pressure
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Key Question: How prevalent is the “denominator effect” and how large is it?

- This paper provides a very useful way forward.

Recap

Question: How do U.S. public pension plans manage their PE allocations beyond the initial commitment decision?

Methodology:

- Infer secondary sales from a plan that stops reporting performance for a PE fund
- Difference-in-differences around the 2021–22 valuation shocks
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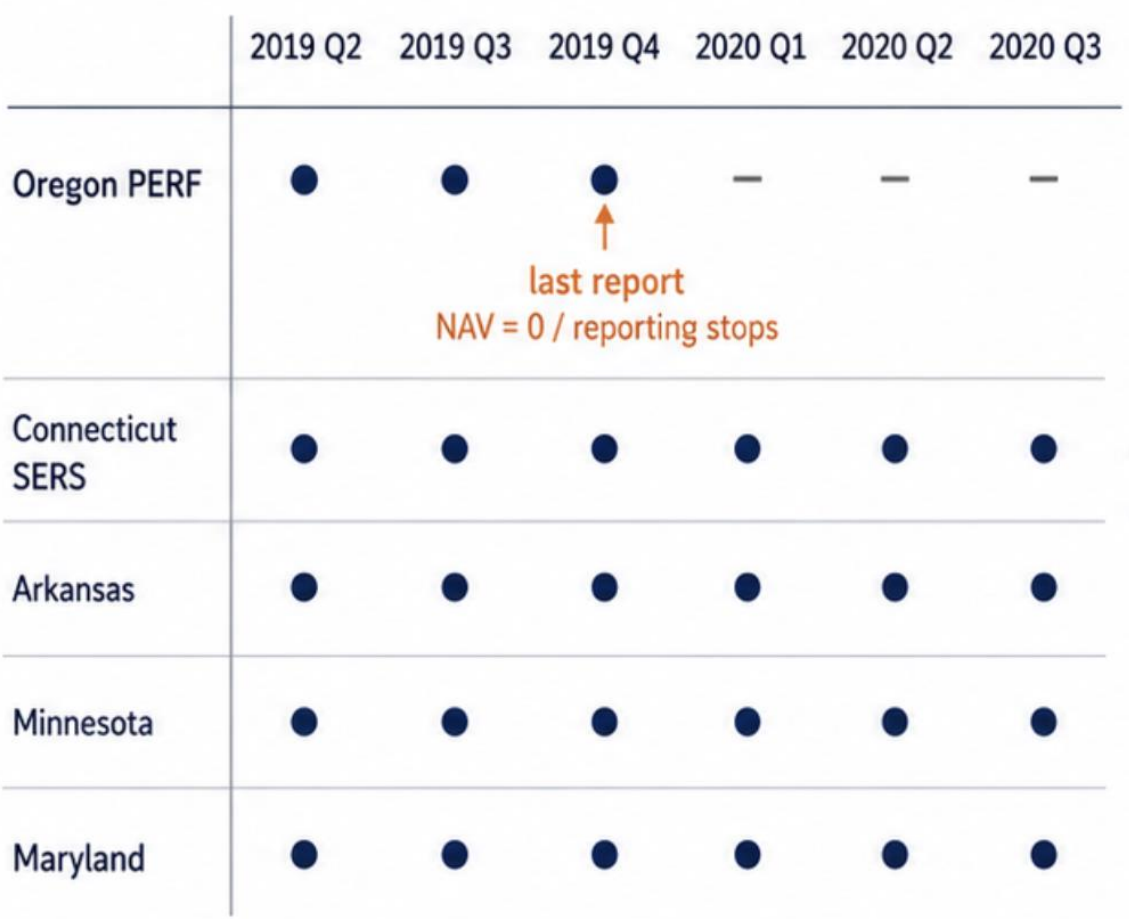
Plan for Discussion

1. Identifying Secondary Transactions
2. Empirical Design
3. An Alternate Rebalancing Mechanism

Comment 1. Identifying Secondary Transactions

Methodology

Infer sales from reporting discontinuities present in one pension fund but not in another:



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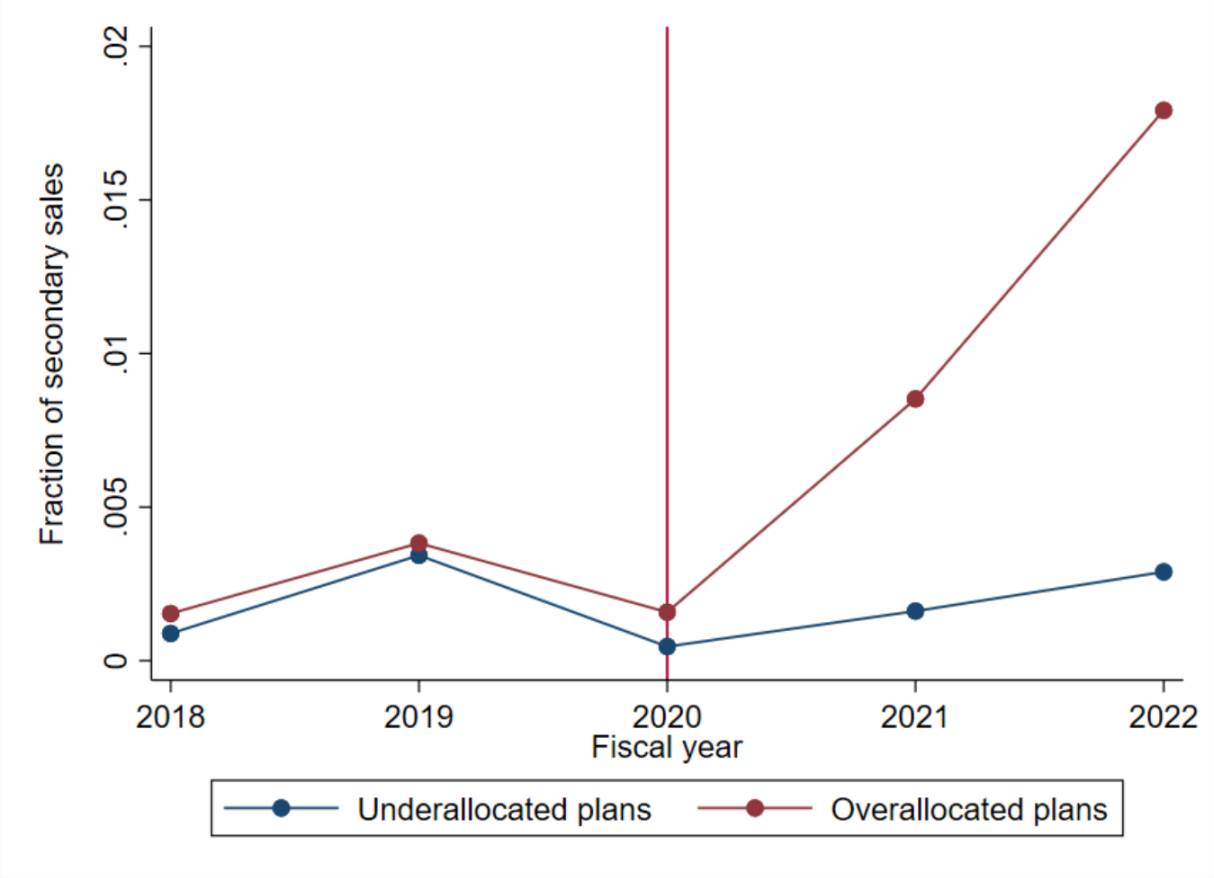
  Suggestion #1b. Add Insurer Schedule BA Holdings Data
  - Insurance companies file Schedule BA in their NAIC statutory filings with position-level detail on alternative investments, including PE fund stakes, book/adjusted carrying value, and acquisition date.

Comment 2. Empirical Design

Empirical Design: Difference-in-Differences

$$Y_{it} = \beta_1 \text{Post}_t \times \text{Plan Characteristic}_i + \text{Public Plan FE}_i + \text{Quarter FE}_t + \varepsilon,$$



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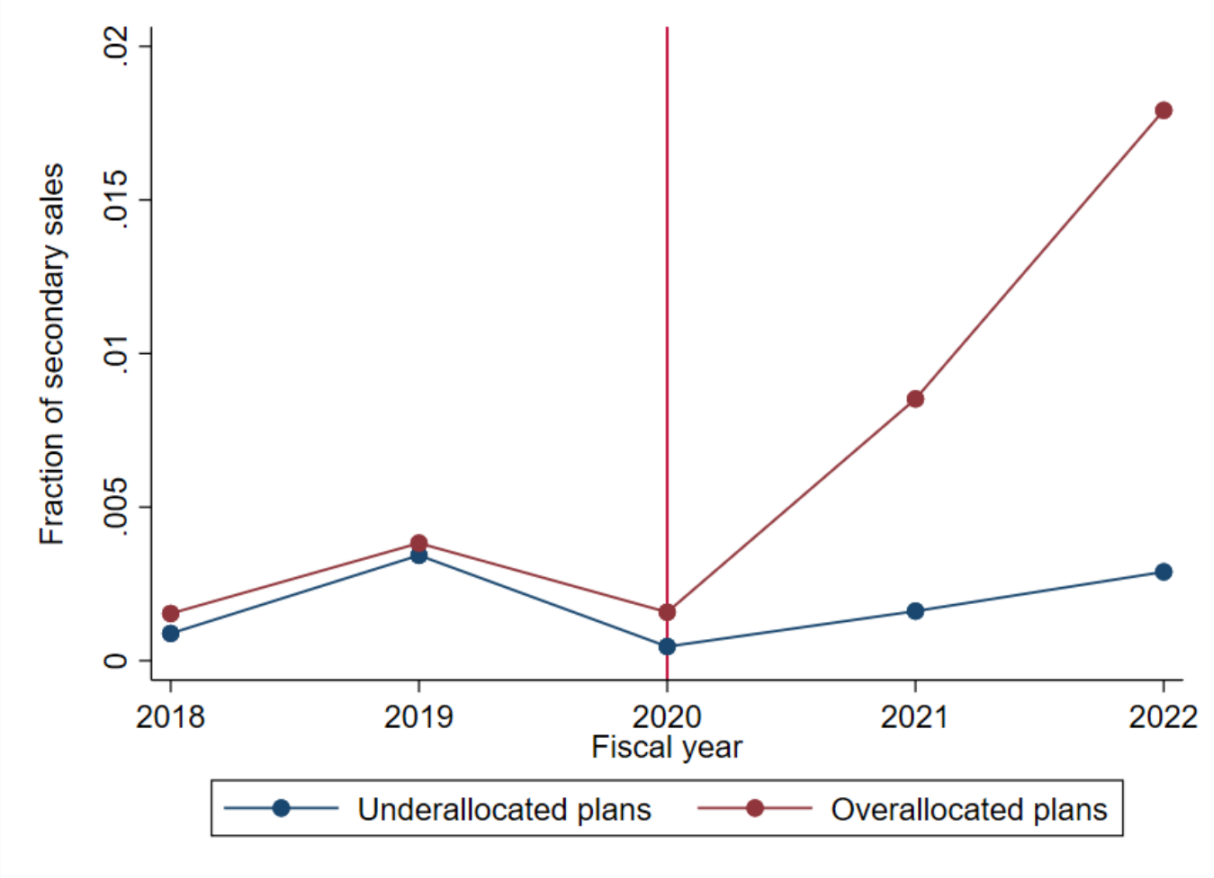

Authors are leaving a lot of variation on the table and the paper can strengthen its claims by providing evidence from a few variants of this difference-in-differences design.

Empirical Design: Treatment (1/2)

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- **Reason #1:** What actually generates rebalancing pressure is how far the shock pushed a plan past its target, which depends on the intensity of pre-shock positioning, not its sign.

Empirical Design: Treatment (2/2)

Table 3: Horse race of different pension characteristics and conclude that “overallocation is the dominant driver of secondary sales **in response to valuation shocks**”

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	Secondary sales/Portfolio				
	(1)	(2)	(3)	(4)	(5)
Overallocated plan	0.007***				0.008***
	(0.003)				(0.003)
Cash flows / Assets		–0.073**			–0.067**
		(0.034)			(0.033)
Funding ratio			–0.000		0.004
			(0.009)		(0.009)
Log(assets)				–0.006	–0.009
				(0.006)	(0.006)
Plan FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	2,548	2,548	2,548	2,548	2,548
R^2	0.11	0.11	0.11	0.11	0.11

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Reason #2: Using continuous variable for the degree of overallocation will help us get a sense of which is a stronger force **unconditionally**.

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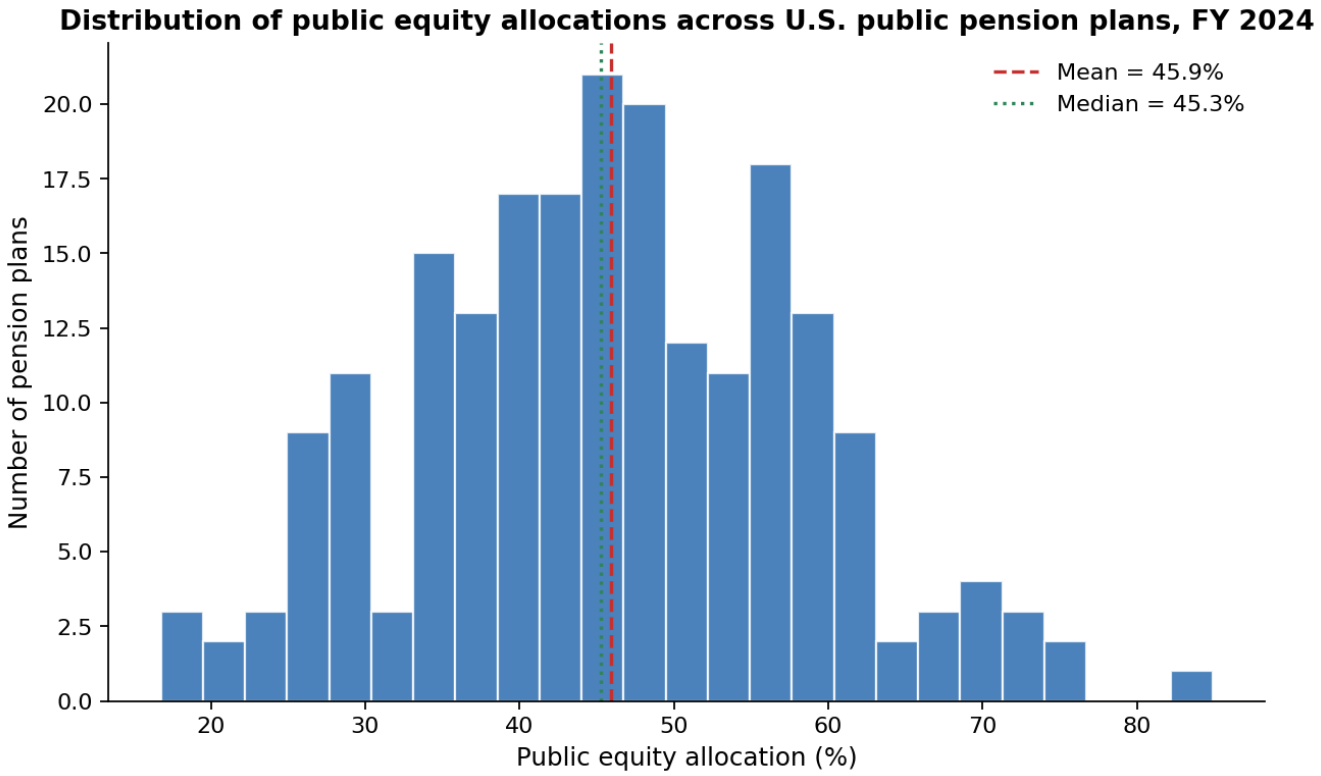

(Source: Public Plans Data)

Empirical Results: Interpretation

Suggestion #2c. Quantify how much secondary sales undoes the “denominator effect”

- Seems like a key step for establishing secondary sales as "a key mechanism through which pension plans address overallocation.”

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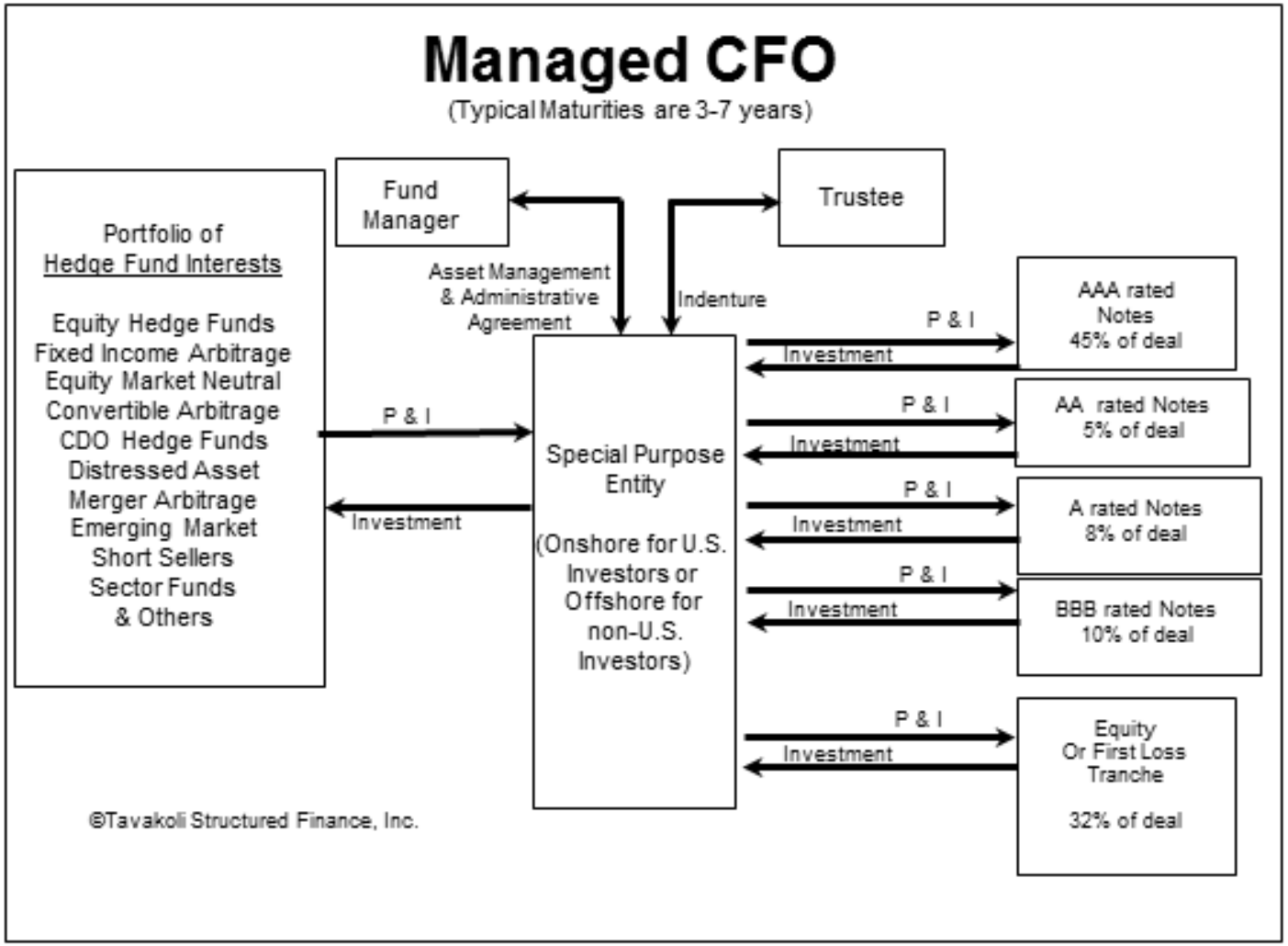
Question: If true, which frictions prevent them from rebalancing all the way?

Comment 3. An Alternate Rebalancing Mechanism

Collateralized Fund Obligations



Collateralized Fund Obligations

Some examples:

- Silver Leaf (2003) — Securitization of private equity fund assets by Deutsche Bank
- Pine Street (2003) — Securitization of private equity fund assets by AIG
- Tenzing (2004) — Securitization of private equity fund assets by Invesco
- Mizuho IM has launched its first CFO called Vintage I in 2007, a EUR 500 million fund investing in global buyout funds.
- In 2006 Temasek Holdings completed $810 million securitization of a portfolio of 46 private equity funds.
- SVG Capital has executed three CFO securitizations as part of its "Diamond" program, SVG Diamond (2004), SVG Diamond II (2006) and SVG Diamond III (2007).
- 2018.06: Temasek Holdings sold a $501 million CFO Astrea IV to local retail investors (subsequently followed by Astrea V and VI)
- 2018.07: Sightway Capital raised $216 million for a CFO, SWC Funding, that is backed by stakes in 32 private equity funds. (source)
- 2019: Coller Capital issues a CFO
- 2020: Coller Capital issues a CFO
- 2021: KKR issues at least two CFOs
- 2021: Ares issued raised $1 billion for a CFO

Discussion of Alternate Rebalancing Options

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