INDUSTRY REPORT

Independent Sponsors:

Performance Returns Study

Equity Returns, Net of Sponsor Economics – The First Large-Scale Empirical Analysis

ABOUT THIS STUDY

The Small Business Investor Alliance (SBIA) and the Independent Sponsor Forum (ISF) launched the first-ever comprehensive dataset and performance study of independent sponsor transactions, in collaboration with the Institute for Private Capital (IPC) at the University of North Carolina's Kenan-Flagler Business School. This groundbreaking study is a vital step in quantifying the performance and growth of the independent sponsor asset class. By providing data on key metrics such as DPI, RVPI, and IRR for both exited and live deals, we have – and will continue to – demonstrate the value and impact of independent sponsor transactions. The results help validate the growth of this asset class and foster greater institutional understanding and acceptance.

Behind The Data

The IPC study analyzes 846 transactions reported by 73 independent sponsors and capital providers – the first large-scale empirical analysis of independent sponsor investment characteristics and performance. All figures reflect equity returns only, net of independent sponsor economics (carry, fees, and deal costs), before investor-level fees. Debt returns are excluded. What follows are the five most important takeaways.

> *"The meteoric rise of deal-by-deal investing is undeniable, and now we know why – the returns support it. Independent sponsors are here to stay in the lower middle market, and this study gives institutional investors the data they need to evaluate this growing segment."*
>
> **– Brett Palmer, Small Business Investor Alliance**

1. Independent Sponsors Are Business Builders, Not Allocators

Independent sponsors are business builders who underwrite what a company can become, not what it has been – with deep operational involvement across the full hold period. The data reflects it: EBITDA multiples expanded an average of 3.5 turns over the hold period, with more than 75% of companies seeing multiple expansion. The median investment added 17% headcount – concrete business building, not financial repositioning.

> *"The best independent sponsors aren't capital allocators – they're business builders who underwrite what a company can become, not what it's been. That forward-looking orientation, backed by real operational involvement, is what drives value creation and separates this model from traditional fund investing."*
>
> **– Max DeZara, Akoya Capital**

Typical Independent Sponsor Profile

88% prior private equity experience	**71%** investment banking background	**63%** direct operational expertise
50% industry-specific domain knowledge	**2 in 3** operate with 2+ partners	**2 in 3** serial sponsors with 3+ closed deals

2. Not "Fundless" – Superior Equity Returns in a Differentiated Model

The independent sponsor model is increasingly a deliberate strategic choice, not a fallback. Where 75% of sponsors once expected to eventually raise a fund, that number has fallen to ~25% today – with 60% planning to remain independent indefinitely. The returns justify that conviction.

2.1x	**23.8%**	**+5.3pts**	**+0.73x**
Median Equity TVPI	**Median Equity IRR**	**Median IRR Above Benchmark**	**Mean Excess TVPI vs. Benchmark**
net of IS economics	net of IS economics	23.8% vs. 18.5%	2.86x vs. 2.13x benchmark
vs. ~2.0x benchmark median	*vs. 18.5% benchmark median*	*~29% higher on relative basis*	*$p < 0.01$ (BCa bootstrap)*

All performance figures use median equity returns to capital providers, net of independent sponsor economics (carried interest, deal fees, and costs). The benchmark is the median of U.S. buyout transactions of comparable size matched by entry year from the MSCI Private Capital Universe. At a median equity IRR of 23.8% versus a benchmark median of 18.5%, independent sponsors delivered returns approximately 29% higher on a relative basis – a meaningful premium for an asset class with comparable downside risk. Loss incidence (23.5%) is statistically indistinguishable from the benchmark (21.6%), confirming that higher returns reflect upside capture, not elevated risk.

> *"Investing on a deal-by-deal basis offers distinct structural advantages for both sponsors and investors. Investors retain the ability to evaluate and underwrite each transaction individually, rather than committing capital to a blind pool, while management fees are transaction-specific and typically accrue only upon closing. For sponsors, this structure affords greater flexibility by eliminating the constraints of a predefined fund mandate and reducing the pressure to deploy capital rapidly or exit within a fixed lifecycle. Collectively, these attributes contribute to the enhanced return profile associated with the independent sponsor model."*
>
> **– Erik Ginsberg, Slate Capital**

3. Accessing the Fragmented Lower Middle Market

The independent sponsor market occupies a distinct niche: companies too small for institutional private equity, too complex for generalist capital, and too relationship-driven for standardized underwriting. As lower middle market funds grow and migrate upmarket, independent sponsors fill the vacuum – with proprietary sourcing, bespoke capital structures, and hands-on ownership.

> *"The independent sponsor model works well for every party at the table. Sponsors focus on building great businesses without the constraints of a fund mandate. Sellers partner with highly engaged, operationally-driven investors. Capital partners underwrite each transaction individually rather than committing to a blind pool. When a structure delivers for everyone, growth follows."*
>
> **– Grant Kornman, Align Collaborate**

What the data shows:

Investment Characteristic	Typical Range / Metric
Typical enterprise value at entry	**$10M – $50M (70% of sample)**
Typical EBITDA at entry	**$2M – $10M (73% of sample)**
Primary industry focus	**Business & Consumer Products/Services (69%)**
Technology & Healthcare share	**Only 20.9% vs. majority of large PE**

Primary capital sources	**SBICs, family offices, private credit funds**

4. Success Requires Selecting Both a Great Sponsor and a Great Deal

Independent sponsor investing is a high-dispersion asset class – and that dispersion reflects the genuine complexity of these transactions. Capital providers must independently underwrite two distinct variables at once: the quality of the independent sponsor and the quality of the specific deal. Both matter. Neither alone is sufficient.

~5%	25%	41pts	23.8% vs 18.5%
of equity investments are complete write-offs	of equity investments exceed 4.0x TVPI, net of IS economics	IRR standard deviation – shaped by deal and sponsor quality	Independent Sponsor median IRR vs. benchmark median

The wide range of outcomes – from complete write-offs to breakout performers above 4.0x equity TVPI – is driven by multiple factors: sponsor experience and operational depth, deal sourcing and entry valuation discipline, industry dynamics, and capital structure. No single factor statistically dominated performance in the dataset, which underscores that this is a multidimensional underwriting challenge, not only a manager selection exercise. A quality sponsor, after all, is often the reason a quality deal gets found.

> ***The question is not "what is the average return?" but "do you have the access and judgment to select both backable sponsors and high-quality deals?" Concentrated, high-conviction relationships with backable sponsors are the mechanism for capturing outsized returns.***

As the dataset grows over time, additional factors driving outperformance are likely to emerge with greater statistical clarity. What is already evident: independent sponsor investing rewards diligence, relationships, and the ability to evaluate operators and assets on a deal-by-deal basis.

5. Why Capital Is Moving Into This Asset Class Now

Four converging forces are driving serious institutional attention to the independent sponsor ecosystem:

Talent Migration

Experienced private equity investors and sector operators are choosing the independent sponsor structure to express their edge without the constraints of fund management. 88% of sponsors carry prior private equity experience; the majority are serial practitioners building genuine franchises.

The Deal-by-Deal Shift

As lower middle market fund formation has declined, the deal-by-deal model has matured into a preferred structure. Investors avoid J-curve drag and blind-pool risk, while gaining the ability to concentrate capital in highest-conviction opportunities and underwrite each asset independently.

Empirically Validated Returns

This study provides the first large-sample evidence base for independent sponsor performance. The data – 846 transactions, statistically significant outperformance versus matched buyout benchmarks – is moving independent sponsor investing from practitioner consensus to institutional credibility.

Individual Asset Underwriting

Capital providers evaluate each sponsor and each deal independently – reviewing thesis, capital structure, and value-creation plan before committing. For disciplined allocators, this transparency is a feature, not friction: it enables precision, concentration, and direct alignment.

> ***The independent sponsor asset class is no longer a cottage industry. It is an emerging institutional category – validated by data, attracting serious talent, and delivering equity returns that justify growing allocations.***

Conclusion: A Durable, Differentiated Channel for Lower Middle Market Exposure

The IPC study establishes, for the first time with rigorous empirical evidence, that independent sponsors represent a distinct and compelling allocation opportunity within private equity. They are not a scaled-down version of traditional buyout funds, nor a second-choice structure for investors who couldn't raise committed capital. They are specialized, operationally driven business builders with a durable structural advantage in the least intermediated corners of the private markets.

For investors, the implications are clear: capturing the full return potential of this asset class requires either a dedicated, systematic approach – building a pipeline of sponsor relationships, developing the infrastructure to underwrite individual deals efficiently, and applying rigorous judgment to both the operator and the asset – or partnering with a specialized fund that has already built those relationships and that infrastructure. For most institutional investors, recreating that network and underwriting capability from scratch is a significant undertaking; the most reliable path to the top of the return distribution runs through experienced practitioners with deep, existing networks in the space. The evidence now supports treating independent sponsor investing as a foundational, not opportunistic, part of a private markets portfolio – whether accessed directly or through a specialized capital partner with proven access to this asset class.

SOURCE: "Independent Sponsors: Investment Characteristics and Performance," Prof. Gregory Brown & Prof. William M. Volckmann II (IPC / UNC Kenan-Flagler Business School), May 2026. Data from 846 transactions surveyed in partnership with the Small Business Investor Alliance Independent Sponsor Forum. Benchmark: MSCI Private Capital Universe, U.S. buyout transactions up to $100M investment size, matched by entry year. All performance figures reflect equity returns only, net of independent sponsor economics (carried interest, deal fees, and related costs), before investor-level fees. Debt instruments excluded from all return calculations. Past performance is not indicative of future results.

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