

Why the Independent Sponsor Model Is Outperforming Committed Funds in Private Equity



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Why is the independent sponsor/direct deal model outperforming the committed fund model in today's market?

- **Sponsor Quality:** Quality of individuals launching their own direct investment firms (whether independent sponsors, Special Purpose Vehicles (SPVs), holding companies/permanent capital vehicles, etc.) has dramatically increased. Teams have compelling expertise, with a track record, and a strong investment thesis.
- **Deal Flow:** Many independent sponsor investors have access to attractive proprietary/semi-proprietary deal flow (often from the industry circles they know well). This is a huge edge in the market. Moreover, with thousands of targets, the lower middle market remains a key fishing zone for independent sponsor deals (70% of the deals are in the \$10 million to \$50 million EV range).
- **Stronger Alignment:** In the direct deal model, absent a modest EBITDA advisory fee paid by the portfolio company, the independent sponsor is heavily motivated (especially in a tiered carry waterfall) to drive outsized

returns. Without access to committed capital, there is even a higher bar to securing more attractive assets under LOI at compelling valuations, using well-thought-out and tax-efficient deal structures (i.e., rollover, seller financing, earn-outs).

- **Capital Availability:** Independent Sponsor Capital Providers Are Growing . The number of SBICs, family offices, dedicated funds (focused on investing equity in independent sponsor deals), and UHNWs/HNWs backing these deals is increasing. It is quite rare that an attractive deal will fail because of capital for independent sponsors (usually, the inability to raise capital signals a material problem with the sponsor, target, or valuation/deal structure).
- **Compelling Returns:** Per a recent study, independent sponsor model deals generated a median 23.8% IRR (5.3% higher than comparable buyout funds). These higher returns are not surprising and are likely to continue as we see an increasing number of new direct deal entrants.

Lippes Mathias [Private Equity](#) and [Independent Sponsor](#) practice team leader [John J. Koeppel's](#) commentary on "[Independent sponsors are beating the buyout funds](#)," *Pitchbook*, by Esther Luz & Madeline Shi, July 14, 2026.

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