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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.