



Independent Sponsors: Investment Characteristics and Performance*

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Abstract

An independent sponsor (IS) is an individual or group that sources, negotiates, and diligences acquisitions of private companies on an investment-by-investment basis without having a pre-raised, committed pool of capital. Independent sponsors then execute a value-creation strategy with the goal of exiting within a few years. The popularity of IS investments has increased substantially in recent years, yet very little research examines investment characteristics and performance. We survey limited partners who invest in IS companies as well as independent sponsors themselves to better understand these investments. We find that IS investments are mostly done by serial sponsors with multiple partners in industries less represented in larger private equity investments. This suggests the development of an “IS industry” that now provides a professional service in a differentiated market. The typical IS partner has previous work experience in private equity and investment banking with operational and/or industry-specific experience. The representative IS investment has a total enterprise value of between \$10 and \$50 million and EBITDA between \$2 and \$10 million though there are many larger and smaller investments as well. Using the data reported by investors, we also perform an analysis of IS investment equity returns and find an average (median) gross TVPI of 2.9 (2.1), along with an average (median) gross IRR of 29% (24%) for fully exited transactions. We benchmark IS investments against gross performance of comparable private investments that are not IS initiated and find that the excess returns are mostly positive (and differences are mostly statistically significant). We find no evidence that IS investments have more downside risk than non-IS investments which suggests that IS investments provide a superior risk-adjusted return.

Keywords: Independent Sponsors, Lower Middle-Market, Private Equity, Small Business

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1 Introduction and Summary of Main Findings

Private capital markets continue to evolve rapidly. Many investors now view funds focusing on large-cap and mega-cap investments as overly competitive with the crowdedness driving down expected returns. In response, sophisticated investors are shifting more attention to private equity investment opportunities in the lower middle-market (LMM), roughly defined as investments involving companies with \$2 to \$10 million in earnings and \$10 million to \$100 million in total enterprise value. Given the more fragmented nature of small businesses, investment sourcing and operating expertise in the LMM are considered key value-drivers for these investments where private equity funds are often the first outside investors.

As part of this trend, LMM investors are increasingly turning to independent sponsors as an efficient mechanism for identifying high potential transactions and executing value creation strategies. An independent sponsor (IS) is an individual or group that sources, negotiates, and diligences acquisitions of private companies on an investment-by-investment basis without having a pre-raised, committed pool of capital. Once identifying an attractive company, the IS will seek funding from an outside source such as a private equity fund or family office and then undertake a value creation strategy in a manner similar to a traditional general partner in a private equity fund. While it is widely assumed that independent sponsors have transacted in thousands of LMM investments, no existing research provides a large-sample analysis of IS investment characteristics and performance. This paper seeks to fill this gap.

To better understand the independent sponsor space, the Institute for Private Capital (IPC) collaborated with the Small Business Investor Alliance to survey both independent sponsors and the capital providers for IS investments. Throughout this paper we refer to these capital providers as the *investors* in IS transactions. Specifically, participants in the SBIA's Independent Sponsor Forum were surveyed about their IS investments including information about the companies and gross investment performance.¹ In all, IPC received data on 846 investments: 697 from investors and 149 from independent sponsors.

¹As discussed further below, we measure the gross performance to investors. For example, our performance metric nets out the costs and fees paid to the independent sponsor, but does *not* net out the investor's costs and fees. Thus it is analogous to the gross performance metrics for portfolio companies in a private equity fund.

2 Why Independent Sponsors?

Basic economics predicts that less efficient capital markets (i.e., those with a capital scarcity) provide the opportunity for superior returns. It is well-documented that smaller firms tend to face less efficient capital markets. Consequently, they have higher costs when seeking external capital because they are harder to evaluate and monitor. This suggests that skilled investors providing capital to high potential firms can capitalize on unrealized growth potential.

The existence of market frictions in small business financing is not new. In fact, research dating back to the 1930s identifies the higher cost of capital (and thus higher return potential for investors) associated with smaller private businesses. By 1957 the Federal Reserve had begun systematically studying the financial challenges faced by small businesses (Choate, 1961) and its effect on economic growth. One consequence of this study was the creation of the Small Business Investment Company (SBIC) program in 1958, run by the Small Business Administration, which lowers the cost and risk of financing small firms by providing government-backed leverage to private funds, enabling them to lend to businesses that are otherwise difficult to evaluate or collateralize. As discussed below, the SBIC program is especially pertinent given the prevalence of SBIC funds in the independent sponsor space.

More recent research has confirmed the existence *and persistence* of a small business funding gap.² Brown et al. (2020) survey the literature and conclude that the SBIC program in particular has been effective in directing capital toward small under-capitalized businesses. Related research has shown that smaller private equity investments have higher average returns (Brown et al., 2024). However, this outperformance of small funds is driven primarily by greater dispersion in performance indicating that outperformance in smaller companies relies on selection more than for larger private equity investments.

This prior research helps explain the independent sponsor model. Anecdotally, independent sponsors are mostly investment-by-investment private equity buyers who often acquire founder-owned businesses that are small, complex, and relationship-driven. IS investments are typically funded by investors specializing in the lower-middle market such as family offices, private equity and private credit funds (including SBICs) as well as funds-of-funds. Independent sponsors

²See, for example, Beck and Demirguc-Kunt (2006), Chernenko et al. (2022), and Davydiuk et al. (2024))

commonly operate in smaller EBITDA / smaller enterprise-value segments, where underwriting is more bespoke, information is thinner, and collateral may be limited, so success depends on specialized diligence and close monitoring. Independent sponsors rely on repeat capital-provider relationships and flexible, custom capital stacks (often including junior capital and equity features) rather than standardized, broadly syndicated financing.

Perhaps most importantly, opportunities in LMM investments are less likely to have a consistent value-creation “playbook” and thus have to rely more on operating expertise. Independent sponsors are a mechanism for accessing expertise that may not be available for certain investments to traditional LMM GPs. In practice there is synergistic overlap in ecosystems: LMM/SBIC funds and family offices are frequently cited capital sources for independent sponsors, because they can invest into these smaller investments, and in return, independent sponsors supply proprietary sourcing and hands-on value-creation that helps investors underwrite and access investments in this space. However, the greater dispersion in returns means that superior performance for investors is likely to rely on the ability of investors to identify independent sponsors who can reliably provide superior returns.

What began as a fragmented and lightly institutionalized segment has matured with time, having developed clearer market norms, repeat capital relationships, and broader acceptance from family offices, credit providers, and select institutional investors. The opportunity set is closely tied to structural inefficiencies in smaller private companies and demographic-driven ownership transitions, where sponsors’ sourcing ability and operational involvement are core differentiators. All of this suggests the development of an “IS industry” that now essentially provides a professional service in a differentiated market for LMM investments.

That said, investment economics and governance are very much investment-specific, with negotiation concentrated around carry structures, equity alignment, and control rights rather than headline fees. While fee frameworks and monitoring arrangements have become more standardized with time, carried interest and incentive alignment are still shaped by sponsor experience, capital source, and investment complexity. Because capital is raised transaction by transaction, investors must underwrite both the sponsor and the asset, which increases dispersion across outcomes and places a premium on sponsor and deal quality, discipline, and transparency; these complexities however can also be seen as an opportunity to find outsized returns. Overall, the

independent sponsor model is seen as a now-established but still heterogeneous segment of private equity that trades simplicity and scale for flexibility, bespoke structuring, and access to less competitive parts of the market.

3 Survey Data

In the summer of 2025, IPC collaborated with the Small Business Investor Alliance (SBIA) Independent Sponsor Forum to create a survey tool that would evaluate IS investment characteristics and performance. Slightly different surveys were sent to independent sponsors and investors (AKA, capital providers). In all, 38 independent sponsors contributed information on 138 investments, and 35 investors provided data on 677 investments, for a total of 815 investments (after accounting for duplicates and other oddities, although not all investments have complete data). Given the voluntary participation of respondents, we must consider the possibility of selection bias in the sample. For example, one might expect that only better performers have persisted in the space and are therefore over-represented in sample. This would generate artificially high returns. On the other hand, we know of two established and highly successful investors, both of which have done dozens of investments, who declined to participate out of confidentiality concerns.

While it is impossible for us to isolate and correct for potential selection bias, the results we report remain highly informative and represent by far the largest sample of IS investments studied to date. In addition, the vast majority of the investments in our sample are from investors who reported information on all of their transactions regardless of performance outcomes. Finally, we only report performance statistics using the transactions reported by investors (i.e., we exclude IS-reported performance data) which we believe are less likely to suffer from selection bias.³

Figure 1 shows the number of investments by entry year and by the type of respondent. The substantial growth in IS investment activity is clear given that the majority of investments occurred after 2018. Details on the sample size are provided in Table 1. We separate investments into those that are still active (including only partially exited) and those that are fully exited. The

³When we observe the same transaction in the data from multiple respondents (e.g., both an investor and an IS or two investors in the same transaction), we leave all observations in reporting the descriptive statistics. However, for the performance data, we ignore the IS-reported performance statistics and average the investor-reported performance statistics.

INDEPENDENT SPONSOR ENTRY AND EXIT YEARS

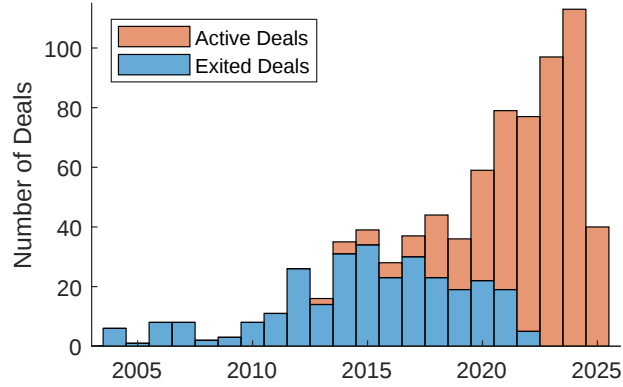


FIGURE 1: This figure plots the number of independent sponsor investments based on entry year. Exited investments are blue bars and active investments are orange bars.

TABLE 1: INDEPENDENT SPONSOR RESPONDENTS

Respondents	Active	Fully Exited	Total
Independent Sponsors	121	28	149
Investors	421	276	697
All	542	304	846

majority of investments (542) are still active as of the survey response date. While this poses some challenges for measuring performance of more recent investments, we are able to benchmark these investments against similar private non-IS investments that are also still active (details provided below).

3.1 Independent Sponsor Investment Characteristics

We asked respondents to provide information on various investment characteristics to better understand where IS activity is focused. We start by examining investment size. Typical investment size as measured by total enterprise value (TEV) in our sample was about \$25 million, however, investment sizes varied considerably (see Table 2). The majority (almost 70%) of investments had TEVs at entry between \$10 million and \$50 million, but 17.4% were larger than \$50 million with some even exceeding \$150 million. 14.5% of investments had a TEV of less than \$10 million at entry.

TABLE 2: INDEPENDENT SPONSOR TEV AT ENTRY

TEV at Entry	Obs	Percent
Up to 10 million USD	120	14.5%
> 10 to 25 million USD	331	40.1%
> 25 to 50 million USD	231	28.0%
> 50 to 150 million USD	124	15.0%
> 150 million USD	20	2.4%

We also asked respondents to report values for earnings before interest, taxes, depreciation, and amortization (EBITDA) at entry (see Table 3). Typical EBITDA was about \$5 million, but we again see substantial variation. While the majority of companies had EBITDA between \$2 million and \$10 million, 14.5% of companies had EBITDA below \$2 million and a similar number had EBITDA greater than \$10 million. Together these statistics suggest that most IS companies in our sample sit comfortably in the typical LMM size range.

As private equity markets have grown in size there has also been a migration in industry composition away from business/consumer products and services (including manufacturing and industrials) toward information technology (tech), healthcare, and financials. In fact, by 2022 the majority of large PE buyout transactions were in tech and healthcare. In contrast, IS companies

TABLE 3: INDEPENDENT SPONSOR EBITDA AT ENTRY

EBITDA at Entry	Obs	Percent
Up to 2 million USD	120	14.7%
> 2 to 5 million USD	386	47.4%
> 5 to 10 million USD	209	25.7%
> 10 to 15 million USD	51	6.3%
> 15 to 20 million USD	24	2.9%
> 20 million USD	24	2.9%

have remained primarily in business/consumer products and services. Table 4 shows that only 20.9% of the IS companies in our sample were in tech, healthcare and financials whereas 69.0% were in business/consumer products and services.

TABLE 4: INDEPENDENT SPONSOR INDUSTRY INVESTED

Industry	N	Percent
Business Products and Services	437	51.7%
Consumer Products and Services	146	17.3%
Healthcare	102	12.1%
Materials and Resources	67	7.9%
Information Technology	64	7.6%
Financial Services	10	1.2%
Energy	8	0.9%
Utilities	3	0.4%
Other	9	1.1%
Memo: Manufacturing	199	23.5%

Note: We use NAICs industries which will have manufacturing firms in multiple industries. The last row reports values when we separate out and sum companies in manufacturing sub-industries.

Independent sponsors need funding for their investments and there are a number of potential sources. We asked investors to identify their type and results are presented in Table 5. In our data SBICs are the primary investor for more than half (58.1%) of investments though this is likely due to the survey being facilitated by the SBIA which is a trade group for SBICs. Other leading types of investors are non-SBIC private equity and private credit/lending funds, funds-of-funds, and family offices. Very few investments in our sample were funded by institutional limited partners (LPs) or other sources.

TABLE 5: INDEPENDENT SPONSOR INVESTOR TYPE AND PRIMARY CAPITAL SOURCE

Investor Type / Primary Capital Source	N	Percent
SBIC	426	58.1%
Non-SBIC Private Equity	97	13.2%
Fund of Funds	69	9.4%
Non-SBIC Private Credit/Lender	54	7.4%
Family Office	48	6.5%
Institutional LP	15	2.0%
Other	24	3.3%

Independent sponsor investments can be funded by a variety of types of debt and equity capital. We asked investors to identify the types of capital they provided to IS investments and allowed them to select multiple types. Results reported in Table 6 show that almost all (93%) of our investors make minority equity investments and majorities make mezzanine debt and unitranche debt investments.⁴ About a third of investors make senior debt investments and less than a quarter make control equity investments.

TABLE 6: INVESTMENT TYPES REPORTED BY INVESTORS

Investment Manager Type	N	Percent
Minority Equity	499	93.1%
Control Equity	120	22.4%
Mezzanine Debt	365	68.1%
Unitranche Debt	286	53.4%
Senior Debt	180	33.6%

Multiple types allowed for each firm

We also asked questions specific to independent sponsors to better understand their experience and operations. The independent sponsors in our sample tend to be experienced. Results tabulated in Table 7 show that the majority have done 4 or more investments and 20% have done 6 or more investments. Overall, two-thirds of transactions were done by “serial” independent sponsors with 3 or more investments to date. Furthermore, an independent sponsor is typically not a solo actor: we find that two-thirds of independent sponsors have two or more partners and only a small minority (12.5%) operate individually (see Table 8). Together these findings are in-

⁴In this table, N is the sum of the number of investments for each type of investor making each type of investment, so effectively investors doing more IS investments are weighted more heavily.

dicative of a professionalized IS community that seeks to build a franchise around the ability to independently source investments and build companies.

The notion of an increasingly institutionalized independent sponsor space is reinforced by examining professional backgrounds. Results presented in Table 9 show that a majority of independent sponsors have previously worked in private equity and investment banking. Furthermore, most have operational experience and industry-specific experience.

TABLE 7: INDEPENDENT SPONSOR NUMBER OF CLOSED INVESTMENTS

# Closed Investments	N	Percent
0	1	4.3%
1	6	26.1%
2	1	4.3%
3	3	13.0%
4	4	17.4%
5	3	13.0%
6	2	8.7%
> 6	3	13.0%
3 or more	15	65.2%

TABLE 8: INDEPENDENT SPONSOR NUMBER OF ADDITIONAL PARTNERS

Number of Additional Partners	N	Percent
0	3	12.5%
1	5	20.8%
2	8	33.3%
3	3	12.5%
4	4	16.7%
> 4	1	4.2%
2 or more	16	66.7%

We also provide distributional summary statistics for the continuous variables collected in the survey and report these in Table 10. The average entry year for investments in our sample is 2017 and the average exit year is 2020 though, as noted above, many investments are still active and so there is no exit year. The typical duration of exited investments is about 5 years, slightly shorter than the investment length of all investments. Respondents report significant EBITDA multiple expansion over the life of investments averaging an increase of 3.5 turns and a median expansion

TABLE 9: INDEPENDENT SPONSOR BACKGROUNDS

Background	N	Percent
Private Equity	21	88%
PE Backed Executive	6	25%
Investment Banking	17	71%
Corporate Development	7	29%
Operational Expertise	15	63%
Industry Expertise	12	50%
Other	7	29%

of 2.6 turns. In fact, more than 75% of investments experience EBITDA multiple expansion. In most cases the number of employees increases (consistent with firm growth) over the life of an investment. The average investment sees employee growth of almost 70 though this growth is highly skewed by a few investments with 1,000s of additional employees – the median investment sees employment growth of 17% (10 employees).

TABLE 10: INDEPENDENT SPONSOR SUMMARY STATISTICS

Variable	N	Mean	StDev	Min	Q1	Q2	Q3	Max
Entry Year	488	2017	4.1	2002	2014	2018	2020	2022
Exit Year	285	2020	4.0	2003	2017	2021	2023	2025
Investment Length (All)	488	5.3	2.5	0	4	5	7	15
Investment Length (Exited)	285	4.8	2.6	0	3	4	6	15
EBITDA Multiple at Entry	449	5.7	2.0	0.7	4.6	5.5	6.5	23.2
EBITDA Multiple at Exit	194	9.1	6.1	0.0	5.5	8.0	11.0	45.3
EBITDA Change	193	3.5	6.0	-7.6	0.3	2.6	5.0	41.3
Employees at Entry	381	170.7	598.4	2	37	80	152.25	9000
Employees at Exit/Present	368	213.9	533.9	0	48	105.5	209	9079
Employee Change	351	69.6	255.5	-608	-4.75	10	67.25	3076
Employee Change Percent	351	94%	257%	-100%	-5%	17%	95%	3150%
Investor-Reported TVPI	328	2.86	2.75	0.00	1.15	2.10	3.87	17.60
Investor-Reported IRR	283	29.3%	41.3%	-99.0%	9.9%	23.8%	46.7%	246.3%

Only investments with an entry year before 2022 are included unless exited. Investments with TVPI of zero are given IRR of -99%.

In the next section we examine investment performance in detail, so we summarize in Table 10 the data on the ratio of total value to paid-in capital (TVPI) and the internal rate of return

(IRR). Performance analysis in this sample is challenged by the majority of investments still being active. Consequently, most of the performance statistics are for *interim* performance not final performance. We deal with this subsequently by benchmarking exited and active investments separately and by vintage year. Furthermore, we restrict the analysis to investments reported by investors to minimize selection bias. The average (median) TVPI of IS investments is 2.86 (2.10). Overall the dispersion in performance is extreme with about 5% of investments being complete write-offs and nearly a quarter of investments having TVPIs greater than 4.0. The last part of Table 10 reports statistics for IRRs and shows similarly large average values and extreme dispersion. Because the IRR of a full loss (i.e., $TVPI = 0$) is undefined, we code these as -99% . The average (median) IRR is 29.3% (23.8%) but the standard deviation is 41%.

4 Return Performance

We focus our performance analysis on investments made earlier than 2022, unless already exited. We do this because the reported performance of short-lived investments that have yet to exit are heavily reliant on unrealized valuations, and more generally, have not had adequate time to mature into investments for which performance analysis is cogent (for example, not enough time for TVPI to deviate from 1 or IRRs dominated by early J-curve effects). The histogram of entry and exit years are shown in Figure 2 with the blue “seasoned investments” illustrating the investments included in subsequent performance analysis.

We reiterate that all performance statistics are based on the equity component of IS investments. In addition to absolute performance as measured by TVPI and IRR, we also evaluate the relative performance (i.e., excess performance) of IS investments. To benchmark the overall performance of IS investments, each IS investment is matched to its own tailored benchmark TVPI and IRR from the MSCI Private Capital Universe in the following way: First, we only include buyout investments in the United States with no more than 100 million USD in investment size. Second, for each IS investment, we only include buyout investments with the same entry year. This yields at least 20 comparable private equity investments for each IS investment. The median of these comparable private equity investments forms the benchmark for the IS investments of a particular entry year and exit status. We then define excess performance to be the IS investment

INDEPENDENT SPONSOR ENTRY AND EXIT YEARS

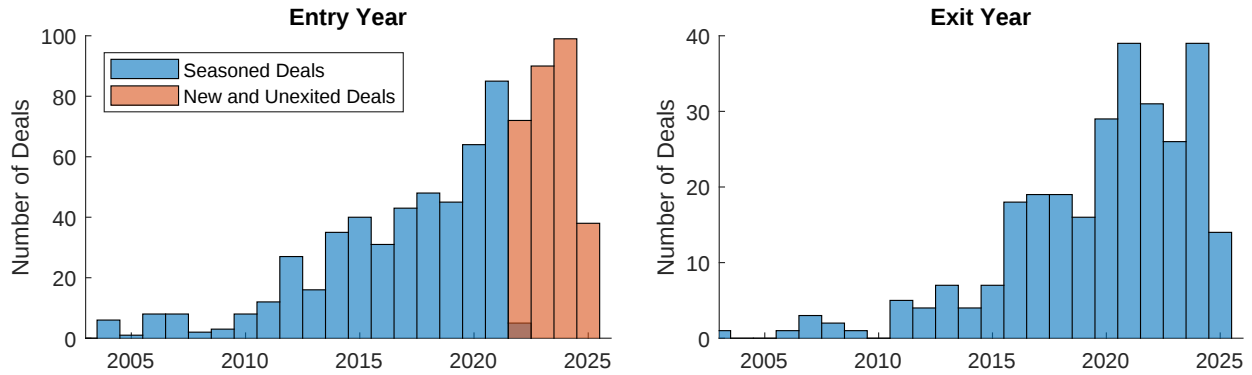


FIGURE 2: This figure plots the number of independent sponsor investments based on entry year and exit year. Investments with an entry year of 2022 and later (blue) are included in analysis only if they are exited; both exited and unexited investments are included for investments with an entry year before 2022.

metric minus the comparable benchmark metric. Consequently, a positive number indicates IS outperformance relative to the benchmark transactions, and a negative number represents underperformance.

The histograms for performance of IS investments are shown in Figure 3, with mean and median performance shown in Table 11, the latter showing only investments reported by investors due to concern that IS respondents could suffer from a significant reporting bias. The mean and median TVPI are 2.90 and 2.11, respectively, with excess mean of 0.77 (which is statistically greater than zero) and excess median of 0.08 (which is not statistically greater than zero). These results suggest that the typical IS investment is at least on par, and often better, than the comparable non-IS investment. For IRR, the mean is 29.3% with a median of 23.8%; and the mean excess IRR is 11.4% and median excess IRR is 5.3%, both of which are statistically significant. The higher mean performance lends credence to the hypothesis that IS investments could be a differentiated source for outsized returns.

Table 12 tabulates losses via TVPI (i.e., TVPI less than 1) for IS investments as well as the full set of exited benchmark investments. As before, only investments reported by investors are included so as to mitigate sample-selection bias. Losses for benchmark investments are calculated by entry

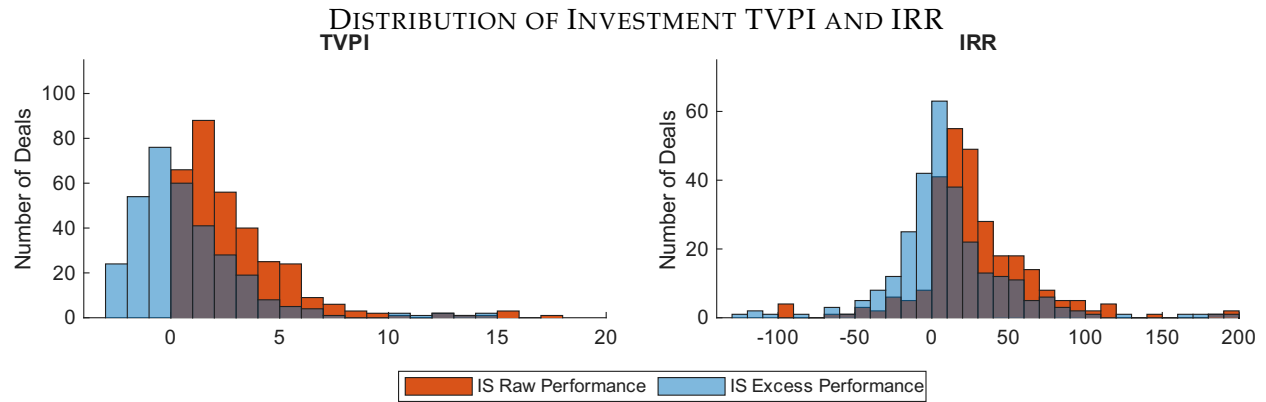


FIGURE 3: This figure shows the distribution raw performance (orange) of TVPI (left) and IRR (right) for capital partner-reported investments in the IS survey sample, as well as excess performance thereof (blue).

TABLE 11: IS INVESTMENT PERFORMANCE

Metric	Obs	IS Mean	Excess Mean	IS Median	Excess Median
TVPI	328	2.86	0.73***	2.10	0.08
IRR	283	29.3%	11.4%***	23.8%	5.3%***

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ calculated with BCa bootstraps over 10,000 iterations. Only includes CP-reported investments.

year, and then each entry year's losses are re-weighted to match the entry year distribution of the IS data, and the same goes for the exited versus active investment distribution.⁵ IS investments exhibit a loss incidence of 23.5%, which is a marginally higher estimate than the 21.6% for the set of comparable investments.

TABLE 12: LOSS ANALYSIS

% Loss	Percent of IS Investments	Percent of Benchmark Investments
100% Loss	4.7%	7.3%
75% up to 100% Loss	8.4%	5.2%
50% up to 75% Loss	4.7%	2.5%
25% up to 50% Loss	3.2%	3.1%
0% up to 25% Loss	2.6%	3.6%
Any Loss	23.5%	21.6%

IS observations include only investments reported by investors, amounting to 344 observations. Benchmark investments consist of 5,497 U.S. buyout investments with investment size no greater than 100 million USD and with entry years matched to each IS investment; losses by entry year are then re-weighted to match the distribution of investments by IS entry year and proportion of exited vs unexited investments. Only includes CP-reported investments.

However, the differences in losses – both by loss amount and overall – are never statistically different, suggesting that IS investments are of similar overall downside risk to non-IS investments. The same holds if one only considers losses of 50% or more. This implies that the out-performance of IS investments is driven by higher positive returns instead of less downside risk. While this is not a formal analysis of risk-adjusted returns, it is consistent with the IS investments having better return per unit of downside risk than their comparable non-IS investments. This conclusion lends credence to the hypothesis that the complexities of navigating independent sponsor investments present an opportunity to find outsized returns, and with a downside that is practically the same as similar private equity investments. This result reinforces that the large dispersion in performance means that skill in selecting IS investments is crucial for driving out-performance in a way that is analogous to other investments with high return variance such as venture capital.

In our analysis of the performance data, we also attempted to understand the cross-sectional determinants of nominal and excess performance. Specifically, we conducted regression analyses

⁵Since IS investments are more common in later entry years, entry year re-weighting of benchmark investments is necessary to ensure that the larger proportion of older benchmark investments – which have had more time to incur potentially deeper losses on average – are not disproportionately represented relative to IS investments.

with TVPI or excess TVPI as the dependent variable and investment characteristics such as entry TEV, entry valuation (TEV/EBITDA), industry, and vintage as explanatory variables. Given the extreme positive skew in the performance data we were careful to consider a variety of robust regression methods. However, our analysis did not identify any statistically significant factors. In other words, we could not find any reliable evidence that larger/smaller, more/less profitable, or industry-specific investments performed differently. We suspect that a larger dataset will be required to generate sufficient statistical power for isolating these sorts of performance determinants.

5 Conclusions

This paper provides the first large-sample empirical analysis of independent sponsor (IS) investment characteristics and performance, drawing on a unique dataset of more than 800 transactions reported by both investors and independent sponsors. We document that IS activity is concentrated in the lower middle-market, with most investments involving companies with enterprise values between \$10 and \$50 million and EBITDA between \$2 and \$10 million, and with a strong tilt toward business and consumer products and services rather than technology or health-care.

The typical independent sponsor in our sample is experienced, operates with one or more partners, and brings prior backgrounds in private equity, investment banking, and operations, consistent with the emergence of a professionalized and increasingly institutionalized IS ecosystem. Taken together, these findings support the view that independent sponsors are not merely opportunistic intermediaries, but rather specialized providers of sourcing, structuring, and operational expertise in segments of the market that are less competitive and less standardized. In many ways, independent sponsors look like LMM private equity firms, but just with a different funding model.

Our performance analysis shows that independent sponsor investments have generated strong absolute returns and, more importantly, competitive-to-superior relative performance compared to matched non-IS buyout transactions. Focusing on investor-reported transactions, we find average (median) gross TVPIs of 2.9 (2.1) and average (median) gross IRRs of approximately 29% (24%) for seasoned transactions. When benchmarked against carefully matched buyout investments by

entry year and size, IS investments exhibit positive excess performance with statistically significant outperformance on average. At the same time, we find no statistically meaningful differences in loss incidence or downside severity between IS and non-IS investments, suggesting that higher returns are driven by greater upside rather than lower risk. These results are consistent with the hypothesis that independent sponsors are able to exploit informational frictions, sourcing advantages, and bespoke structuring opportunities that persist in smaller and more complex private companies.

Overall, our findings have important implications for investors allocating capital to the lower middle-market and for understanding the evolving structure of private equity. Independent sponsors appear to represent a differentiated channel for accessing less intermediated deal flow while delivering attractive risk-adjusted returns comparable to, and often exceeding, those of traditional buyout strategies. While the IS model entails greater heterogeneity, investment-level complexity, and reliance on sponsor quality, these same features may underpin its return potential. Future research could further explore persistence across sponsors, the role of governance and incentive structures, and the long-term scalability of the IS model as it continues to mature. By providing systematic evidence on both investment characteristics and performance, this paper establishes a foundation for evaluating independent sponsors as a durable and economically meaningful segment of the private equity landscape.

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