

Independent Sponsors

A Handbook for LPs and Prospective GPs

WPC

“A movement that first gathered momentum in the US has sent a shockwave through Europe, and the industry is taking notice.”

Jim Weight
**Weight Partners
Capital September
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Introduction

Much has already been written about the rapid surge in independent sponsors. In the mid-2010s they barely existed, yet Axial's 2026 survey¹ says that they now have a greater share of deal activity in the US lower mid-market than traditional blind pool funds. Much less has been written about what an independent sponsor is, what's behind their growth, how LPs might navigate this new sector, and what makes the model a viable option for GPs. In this handbook, I will try to set the ball rolling on answering those questions.

I recently read two articles about founders of independent sponsor funds: Bakari Akil, who set up Graves Hall Capital in 2020², and Kewsong Lee who founded BellTower Partners in 2023³. Mr Lee is nearly three times Mr Akil's age and the former CEO of industry behemoth Carlyle. When Bakil Akil started out in 2015, he was a homeless college dropout.

Independent sponsors come in many forms, but all

are setting out to make private equity investments with a deal-by-deal approach and without a traditional blind-pool fund.

Whatever the reason is, and probably most attractively, returns for fundless sponsors are reported to be better than for blind-pool funds. A recent study⁴ in the US showed mean IRRs of 29.3% for independent sponsors and 17.9% for blind pools, with no statistically significant increase in risk. Yes, the mean IRR for independent sponsors was reported as being over 50% higher than for funds.

Although discussions on independent sponsors can centre upon their smaller portfolios, lower-mid-market focus, and strong sector specification, these characteristics aren't inherently unique to the model. Indeed, all items in Table 1 could be replicated in a fund structure. So, what is going wrong, and why are blind-pool funds struggling to meet LP expectations?

Table 1: Reasons cited for the superior performance of independent sponsors

Avoid competitive processes, often broken auctions, and accordingly lower entry multiples	Small but experienced teams, often sector-focused	Smaller portfolios, therefore focused on every investment
Strong value-creation and returns focus, versus deployment and asset management mentality	Low leverage (typically 2-3x ⁵)	High GP commitment ⁶

¹ Who's Buying in the Lower Middle Market in 2026? Key Buyer Trends From Axial Data, Kaitlin Thatcher, Axial February 17, 2026, Chart titled Closed Deals By Buyer Type | 2021 – 2025

² This Shortcut to Private-Equity Riches Is Minting Young Millionaires, Miriam Gottfried, July 17 2026, Wall Street Journal

³ Private Equity Dealmakers are Shunning Big Firms to Go It Alone, Allison McNeely and Preeti Singh, July 28 2026, Bloomberg

⁴ Independent Sponsors: Investment Characteristics and Performance, June 22 2026, Professors Brown and Volckmann, Institute for Private Capital, University of North Carolina. Median returns were cited as 23.8% IRR for independent sponsors compared to 18.5% for comparable funds.

⁵ Headway, Inside The Independent Sponsor Market: Insights From Our 2025 Survey, page 13

⁶ Uncharted No More, 2025 Independent Sponsor Report, Citrin Cooperman, Page 2

As well as their superior returns, the main reasons for the fast growth of independent sponsors are summarised in Table 2. Beyond there being greater alignment in incentives, LPs benefit from having more say in individual investments. In other words, LPs can

pursue an investment strategy that they like right now, rather than one defined by an LPA that they signed a few years ago. The same applies to the independent sponsor.

Table 2: Why LPs like investing in independent sponsors

Higher returns	On average, up to 29.3% IRR for independent sponsors and 17.9% for funds, according to Professors Brown and Volckmann, from the Institute for Private Capital, University of North Carolina
Investor experience	LPs often find themselves to be more experienced in private equity than they were when they first invested, and are therefore more confident investing into individual companies instead of funds
Better control over liquidity	The PE liquidity freeze has left a lot of unhappy LPs looking for a way to regain some control - To quote one family office, 5-year holds have become 10+ years without liquidity, with the main beneficiary of that being the GP collecting management fees and waiting to crystallise carry - The recent lack of distributions has forced many LPs into selling at a discount in the secondary market to fund commitments made prior to the liquidity freeze - By contrast, LPs only make investments to independent sponsors when they have funds (which is also one of the draws of continuation funds)
Fee alignment	Independent sponsor fees are often perceived to be lower than fund fees, especially those of non-performing funds. Fund structures can also create misaligned incentives between GPs and LPs - Fees are on invested capital, not committed capital. Accordingly, blind pool fund fees are higher than the typical fees associated with independent sponsors (closing fee of 1-1.5% of invested capital and management fee of up to 2% of invested capital)⁷ - Carry is deal-by-deal, which, in Europe, is more favourable to GPs. However, many LPs are happy to pay carry if an investment does well, and carry is often with multiple performance tiers to further protect LP downside⁸ - Fund structures can muddy incentives. For example, managers may feel pressure to rush final investments (and disregard valuation) in the interest of closing out a fund and getting on with raising a next one
Portfolio customisation	LPs frequently cite the freedom to adjust their exposure to certain market sectors (for example, healthcare)

⁷ Pages 10 and 13 Addleshaw Goddard Independent Sponsor Deal Terms Survey 2025

⁸ Pages 14-16 Addleshaw Goddard Independent Sponsor Deal Terms Survey 2025

I'm an LP and I'm Interested – How Do I Navigate the Sector?

If you're an LP, why work with an independent sponsor at all and not just invest directly and save all the fees and carry? The reasons boil down to a combination of skills and costs. If we cast our minds back a couple of decades, LPs evaluated managers, not investments. The mantra was strategy, team, and track record.

Assessing these did not require assessing individual prospective investments. Wind the clock forward and LPs learnt more about the investment process through coinvest, often with board rights. But, still today, most LPs don't want to staff up with origination, execution and portfolio management teams. And many LPs might struggle to attract the most skilled players when those teams can set up shop independently as a GP.

Having decided to look for independent sponsors, what kinds are out there? There is a wide spectrum of setups to think through, which are summarised overleaf in Table 3.

A first step for an LP is to think about what role you want an independent sponsor to play, and therefore what kind of team you should be looking for. At one end of the spectrum, if it's deal flow and operational investment management that you're looking for, and if you're happy to supply the necessary dealmaking and financing skills, then you would be most compatible with a lean team with operational skills. If you're in search of a reliable full private equity GP, then you should consider established independent sponsors with established track records.

Pure economics would imply that large LPs would be investing heavily in independent sponsors because they can manage the diversification. That is not the case, with Citrin Cooperman's most recent survey⁹ showing that Institutional Investors barely feature in funding led by family offices, high-net-worth individuals (HNW) and funds. In my view, the reason for this is most likely a difference in the perception of risk:

Concentration – if you want diversification, you'll need to manage more relationships or work with fund-of-funds that specialise in independent sponsors

Certainty – you can spend time and money and then the prospective investment doesn't go ahead

GP quality – independent sponsors with 3+ investments are unusual in Europe, and approaches to governance, reporting and transparency vary

Minimal secondary liquidity – the secondary market in independent sponsor investments is only starting to emerge

New teams bring new team instability risk

Weaker commitment to investment management – if an investment is going poorly, an independent sponsor is more likely than a traditional GP to give up on it, leaving the LP with the problem

⁹ Uncharted No More, 2025 Independent Sponsor Report, Citrin Cooperman, Page 21

Family offices may be able to tolerate poorer governance because they set their own rules, whereas a large LP has rigid requirements to meet. HNWs and funds can have their own contingency plans if something goes wrong, which may mean simply stepping up to the role of the GP. As a GP, conversely, it is worth being mindful of this threat if an LP's agenda changes. This predominance of family offices and HNWs may explain the faster growth of independent sponsors in the US. By contrast, in Europe, a far greater proportion of funds are managed by institutional investors¹⁰.

However, it should also be noted that institutional investors are reaping many of the benefits associated with the deal-by-deal model of independent sponsors, by making single-asset investments through GP-led secondaries.

An alternative to consider for more institutional LPs is to get partial exposure to the benefits of the model through fund-of-funds focused on independent sponsors. Headway, Keyhaven, and Yana are examples in Europe. This pathway provides most of the returns exposure without requiring LPs to staff up and manage independent sponsors directly.

Table 3: A spectrum of independent sponsor setups

One/Two-person bands	Single part-time operations of one or two individuals securing backing for a deal in which they would lead the management team – can be executive or non-executive - Often called a search fund Operations with an emphasis on PE or banking skills - These are more likely to want to build a small portfolio of one to three investments
Full teams	- These offer full deal execution and investment management - They have large teams and sufficient resources to handle difficulties - Usually, they come with the comfort that they are regulated, for example by the FCA in the UK - They can sometimes be a GP that has failed to raise its latest fund, has put some existing investments into a continuation vehicle, and rebranded as an independent sponsor to source new investments
Sector focus	Sector focus is increasingly seen as essential to generate good returns in PE
Full teams with a funding focus	E.g. the HNW funding models of Connection Capital, Ethos, and Rockpool in the UK

¹⁰ Who Owns the Shares, Daire MacFadden, FT Unhedged July 25 2026

What Does Being an Independent Sponsor Look Like from a GP Perspective?

Despite the current hype, it's not easy for independent sponsors - especially new ones.

For starters, it's hard to synchronise fundraising with deal execution. At a minimum, the time limit is determined by vendor patience, and you may also be dealing with some competition. Beyond that, the absence of a steady fund income means that revenues and activity can be volatile – especially when the often-cyclical availability of LP funds is factored in. This lack of fee income also makes broken deal costs more difficult to navigate.

In Europe at least, part of the current interest in the model stems from the challenge of raising a first-time fund. Recent Pitchbook data¹¹ shows that just 54 funds raised capital in the first half of 2026. If that continues into the rest of the year, the total number of funds active in 2026 will come in at around half of the previous lowest total recorded in the last decade.

Compounding the issue for new GPs is Pitchbook¹² also revealing that only 31.4% of emerging managers (16 in total) closed funds in Europe in the first half of 2026, which is the lowest annual percentage recorded.

Pitchbook defines emerging manager funds as any fund up to, and including, fund three. Our analysis of the underlying data is that just four first-time PE funds were raised across Europe in the first half of 2026.

Organisations such as the Global Emerging Manager Institute and advisor Ternion Alternatives have been set up specifically to support this part of the market. Even with content mapping out how to build new firms and develop large networks of LPs to support the capital raising process, doing so remains tough. Many of the Institute's members quickly redirect their focus towards becoming independent sponsors as an easier alternative to raising a blind pool fund.

So, whether it's pull or push, more emerging managers are pursuing becoming independent sponsors. Most of these new GPs don't sustain for a number of reasons

- They find working independently harder than expected – even things like the admin and compliance that someone else did at their previous firm can become overwhelming when teams just want to focus on deals
- They are often stepping down in deal size, and find themselves without a network in their new size bracket
- Lack of working capital: over time, particularly with running costs and abort costs, cash can begin to run out. This can be exacerbated by LPs failing to partially underwrite deal costs, or by inexperienced GPs carrying out insufficient internal due diligence to reduce the risk of abort fees

If you are a new independent sponsor, it's worth asking yourself whether you are a good fit for what particular LPs are looking for. Here, it is important to consider an LP's track record of investing in independent sponsors. Some fund-of-funds have a specific focus on independent sponsors and are thus familiar with the intricacies of working with them.

Other LPs may have previously coinvested with GPs with whom they have fund investments, but are only just starting to consider working with independent sponsors. It is therefore crucial to align expectations early into the relationship and ensure that LPs understand how the model functions. You need to avoid LPs that are just doing market research. That said, my experience would suggest that an LP's transition towards independent sponsors usually happens pretty quickly.

¹¹ Pitchbook European PE Breakdown, Page 17

¹² Europe's PE capital consolidates around established firms, Emily Lai, July 6, 2026, Page 2

According to TIFF¹³, this is because it remains the least competitive part of the market – indeed, the majority of their co-investments are now with independent sponsors

Because this is a new sector with many LPs dipping a toe in the water, it does mean there is a heightened reputational and financial risk of being let down by an LP at the last minute. Accordingly, LPs with a proven track record of funding independent sponsors often have a competitive advantage in LP selection processes.

Similarly, some strategies require follow-on capital, and GPs need reasonable reassurance the LP will be there for the follow-on. It may also be as simple as managing a short-term unexpected cash crunch. Since many LPs are attracted to independent

sponsors due to the greater flexibility of the commitment (whereby money can be invested as and when LPs have it), this can leave managers vulnerable if their LPs are not positioned to contribute to future financing rounds. This concern is particularly relevant when pursuing a buy-and-build strategy. More experienced independent sponsors initially overdraw so that there is at least some spare capital to mitigate this risk.

Once the surviving few get to a first investment, many are happy to stop there. Those that continue need that first investment, and ideally the next few, all to be successes, as it's individual investments that count for track record for independent sponsors. All of this needs to be achieved without the team falling out or drifting apart.

¹³ You don't need to be a big fish to co-invest, Jessica Hamlin, Pitchbook, 11 August 2026

How Does Fundraising Work for an Independent Sponsor?

It can take GPs a long time to make their first investment, and even longer before they can begin to see returns. Indeed, the financial undertaking is often substantially higher than a new GP anticipates, resulting in most closing up shop before ever making an investment. That is, unless they start out with a partnering LP already secured.

A new GP, without a funding LP that is at least happy to write a funding support letter, will usually struggle to get the attention of someone selling a business, unless it offers something particularly attractive – usually sector expertise, hands-on engagement, or a personal

connection with the sellers¹⁴. This requirement goes away once a GP has track record. For an LP, if you are happy to partner and genuinely commit, you will get your pick of GPs. GPs with track record are unusual, particularly in Europe.

As a result, it is most challenging for independent sponsors to get set up, remain financially viable ahead of getting a first deal done, raise capital, and close those first deals. But if those early investments do perform, and you build a strong working relationship with your LPs, then a small group of partner LPs will emerge to provide core funding for future investments. The path beyond becomes much easier.

Table 4: Fundraising Approaches for Independent Sponsors

Fundraising with multiple GPs alongside deal execution	• Most talked about, much less often achieved
GP underwrite followed by post-closing execution	• Requires a GP to have underwriting funding – most new teams don't • More reliable for a GP • Less wasted time for LPs as the investment is presented once completed • More expensive for LPs as the GP needs compensation for underwriting costs and risk, as well as the risk of absorbing broken deal costs
GP and LP(s) partner early in deal process	• De-risks for a GP • However, the GP becomes beholden to its LP • LPs have to find a way to build trust in a GP, which can be time consuming and runs the risk of many “false starts” • Most often achieved following investment in a previous opportunity

¹⁴ In what situations may an Independent Sponsor be a better buyer than a PE Fund?, Axial's 2025 Independent Sponsor Report, Kaitlenn Thatcher, October 23, 2025

What is the Outlook?

For prospective independent sponsors, I hope that this handbook will help you set up with your eyes open. It's hard to synchronise fundraising with deal execution, and revenue and activity under the independent sponsor model can seem volatile when compared with the steady fund income that many GPs are used to – especially if you suffer broken deal costs. To mitigate this instability, independent sponsors should ensure that LP expectations are aligned and realistic.

For prospective LPs, I hope this will help you understand the differences between the different independent sponsor structures and assess which GPs will work best for (and with) you.

If you're looking for deal flow and portfolio management, and are happy to do the rest yourself and accept that some of the GPs you invest in won't make it, then selecting small teams makes most sense.

If you're looking for full-service PE, then you should think about working with established independent sponsors.

Alternatively, it would be most effective to partner with

fund-of-funds specialising in independent sponsors if you need help unlocking diversification - knowing that you will give up some control over investment selection and timing. In some instances, you can request a managed account with veto rights over prospective investments.

With flexibility to invest in what you want when you want, and with 50% higher IRRs on average (with no measurable increase in risk), I also hope that LPs will understand the benefits offered by independent sponsors.

The independent sponsor boom has arrived in the US, but will it grow to the same extent in Europe? For family office LPs, it already has, but they make up a significantly smaller part of the private equity market here than they do in the US.

In my opinion, European growth will stem from fund-of-funds, that either specialise in independent sponsors already or that are beginning to redirect allocations from funds and co-investments towards independent sponsors. On the ground, that change has arrived, and many are saying it is where the smart money is headed.

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