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Independent Sponsor Model: How Deal-by-Deal Capital Works

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What an independent sponsor is

An independent sponsor is a dealmaker, or a small team, that finds, negotiates and leads acquisitions of private companies without a committed fund. Instead of drawing on capital that investors have already pledged, the sponsor puts a specific company under letter of intent and then raises equity for that one deal from capital providers such as private equity funds, mezzanine funds, family offices and high-net-worth individuals. The glossary entry on independent sponsor gives the short definition; this article covers how the model works in practice.

Three consequences follow from the absence of a fund:

- **Every deal is a fundraise.** The capital provider underwrites a named company, not a strategy or a team in the abstract.
- **The sponsor's economics are negotiated per deal.** There is no limited partnership agreement setting fees for ten years; closing fees, management fees and carried interest are agreed with each deal's investors.
- **The sponsor carries the search.** Until a deal closes, sourcing and early diligence are paid from the sponsor's own resources, unless an investor agrees otherwise.

McGuireWoods, a law firm that advises independent sponsors, describes the segment as having become "a separate asset class with its own set of market terms and norms" (McGuireWoods, Independent Sponsor Transaction Deal Study, 2022). The rest of this article sets out what those terms are, as far as public surveys show them. It describes market practice and is not legal, tax or investment advice.

Independent sponsor vs fund sponsor vs search fund

The three models are often confused because all three buy private companies with outside equity. The difference is when the capital is committed and who runs the company afterwards.

	Committed-fund sponsor	Independent sponsor	Search fund
Capital	Raised in advance into a blind pool	Raised per deal after a target is identified	Search capital raised first; acquisition equity raised when a target is found
Who decides	Fund's investment committee	Each deal's capital providers	Searcher with investor approval
Post-close role	Board and ownership oversight; management team runs the company	Typically board seat and oversight; sometimes an operating role	Searcher usually becomes the chief executive
Fee basis	Fund-level management fee and carry	Deal-level closing fee, management fee and carry	Searcher equity typically vests on acquisition and performance
Origination burden	Supported by fund fees	Funded by the sponsor until closing	Funded by search capital

Stanford Graduate School of Business describes the search fund as "a new model in which entrepreneurs raise capital to find, acquire, and lead a private company." Its 2026 study, covering more than 850 core search funds tracked since 1996 in the United States and Canada, reports an aggregate internal rate of return of 33.9% and a return on investment of 4.75x as of December 31, 2025, an aggregate acquisition rate of 58%, and that "acquiring a company typically takes around 20 months" (Stanford GSB, 2026). No comparable public study of independent sponsor returns was found for this article, so the table compares structures, not performance. The search fund glossary entry covers that model in brief.

How deals are funded

McGuireWoods' deal study is the most detailed public description of deal size and capital sources. It is "based on nearly 300 detailed survey responses related to independent sponsor-led transactions consummated in 2018, 2019, 2020 and 2021." Its main size findings (McGuireWoods, 2022):

- More than 75% of surveyed transactions involved targets with enterprise value between $10 million and $75 million.
- Approximately 75% involved an aggregate equity check of $5 million to $50 million, excluding debt and seller rollover.
- A "good number" involved targets near or above $100 million of enterprise value.

The capital provider shapes the terms. In the same study, transactions using a simple straight-percentage carry "tended to have a larger number of equity investors, who were more likely to be family offices and high-net-worth individuals rather than private equity or mezzanine debt funds," while the tiered model was "preferred by most private equity funds and mezzanine debt funds (as well as many family offices)."

Who pays if the deal dies also depends on the partner. In control buyouts where a control private equity investor was the main equity partner, that investor "was responsible for all of the broken-deal costs in 61% of transactions," and the independent sponsor bore 25% or more of those costs in only 21%. In smaller deals and deals with many investors, it was "more common for the independent sponsor to be responsible for some or all" of the costs (McGuireWoods, 2022).

Two caveats apply to all survey figures in this article. First, both surveys are run by professional-services firms that serve the market, and respondents choose to take part; the samples are not random. Second, McGuireWoods counts transactions from 2018 to 2021, while Citrin Cooperman counts respondents in 2025. A percentage of deals and a percentage of respondents are different measures and should not be averaged together.

The economics: closing fee, management fee, carry

McGuireWoods calls the management fee "the second of the three pillars of the typical independent sponsor economic package"; the other two are the closing economics and the carried interest (McGuireWoods, 2022).

Closing fees

Citrin Cooperman's 2025 Independent Sponsor Report, which draws "on insights from more than 170 professionals active in the sector," reports that only 3% of independent sponsor respondents forgo closing fees, down from 9% in its 2017 report; that 82% calculate the fee as a percentage of transaction value, against 57% in 2017; and that the percentage "is typically 2% according to 56% of respondents." The share of respondents receiving closing fees above $500,000 rose from 10% in 2017 to 28% (Citrin Cooperman, 2025).

McGuireWoods' transaction data point the same way: "nearly two-thirds of the transactions surveyed reported closing economics between 1.5% and 2.49% of enterprise value," and 2% was the most common result for enterprise values between $10 million and $75 million. Sponsors "rolled more than half of their closing economics into equity in the transaction in approximately 60% of the transactions surveyed," with a full rollover the most common outcome (McGuireWoods, 2022). The study adds that the structure of closing economics "can implicate regulatory and licensing considerations."

Management fees

According to Citrin Cooperman, management fees are "most often calculated as a percentage of EBITDA with a floor and a cap, according to 51% of IS respondents," and of those using a percentage of earnings before interest, taxes, depreciation and amortization (EBITDA), "69% typically use 5% of EBITDA." As a dollar amount, the most typical range is $251,000 to $500,000, for 54% of respondents (Citrin Cooperman, 2025).

McGuireWoods found that "nearly 85% of management fees were calculated based on the trailing 12-month EBITDA," that 60% of all transactions paid 5% of trailing EBITDA, and that 76% had a floor, 70% a cap and 60% both. Most floors (89%) fell between $100,000 and $399,000 (McGuireWoods, 2022). Lenders' credit agreements commonly restrict payment of these fees during a default, and the study tabulates how those restrictions were drafted.

Carried interest

Carried interest is "the independent sponsor's share of profits that otherwise would have been paid to the equity capital investors," usually documented in the distribution waterfall of the holding company's limited liability company agreement. McGuireWoods identifies two models: a "variable with hurdles" model, in which the sponsor's share steps up as investors reach return thresholds, and a "straight percentage" model. Of the

transactions surveyed, 61% used the variable model; within it, multiple on invested capital (MOIC) hurdles were used in 70% of cases, internal rate of return (IRR) hurdles in 13% and hybrids in 17%. Among straight-percentage deals, 58% set carry at 20% (McGuireWoods, 2022).

Citrin Cooperman's 2025 respondents report that minimum carry is "firmly within the 10% to 25% range"; that 64% obtained a maximum carry of 25% or more on a typical deal, against 37% in 2019; that 50% use MOIC as the hurdle basis and 20% IRR; that the most typical hurdle rate is 8% to 9.9%, for 63%; and that 74% use a full catch-up (Citrin Cooperman, 2025).

Survey summary

Term	Citrin Cooperman 2025 (share of respondents)	McGuireWoods 2022 (share of 2018-2021 transactions)
Closing fee charged	97% charge one	Closing economics 1.5%-2.49% of enterprise value in nearly two-thirds
Closing fee basis	82% use % of transaction value; 2% typical for 56%	2% most common at $10M-$75M enterprise value
Management fee basis	51% use % of EBITDA with floor and cap	Nearly 85% based on trailing 12-month EBITDA
Management fee rate	69% of EBITDA-based fees at 5%	60% of all transactions at 5% of trailing EBITDA
Carry model	64% reach maximum carry of 25% or more	61% variable-with-hurdles; 58% of straight-percentage deals at 20%
Hurdle basis	50% MOIC, 20% IRR	70% MOIC, 13% IRR, 17% hybrid (variable model only)

Illustrative economics on a $40 million deal

Illustrative. All terms below are hypothetical, chosen to show the arithmetic; they are not market data or a recommendation.

A sponsor acquires a company at $40.0 million enterprise value, funded with $20.0 million of debt and $20.0 million of equity from one capital partner. EBITDA at closing is $5.0 million and grows to $7.0 million by year 5.

Hypothetical terms

Term	Assumption
Closing fee	2% of enterprise value; sponsor rolls half into equity
Management fee	5% of trailing EBITDA, floor $250,000, cap $750,000
Carry	10% of profit up to 2.0x MOIC; 20% of profit above 2.0x
Sponsor equity	Rolled closing fee, invested alongside the partner, carry-free
Simplification	Hurdles tested on gross equity proceeds before carry; real waterfalls usually test on investors' net distributions

Cash to the sponsor

Item	Calculation	Amount
Closing fee	2% × $40.0M	$800,000
Cash kept at close	50% of fee	$400,000
Rolled into equity	50% of fee	$400,000
Management fees, years 1-5	5% of EBITDA of $5.0M, $5.4M, $6.0M, $6.5M, $7.0M	$1,495,000

Exit scenarios (equity value at exit; the rolled $400,000 is inside the $20.0 million equity and earns the same multiple)

Exit equity value	Equity MOIC	Profit	Carry at 10% up to 2.0x	Carry at 20% above 2.0x	Total carry	Value of rolled equity
$20.0M	1.0x	$0	$0	$0	$0	$400,000
$30.0M	1.5x	$10.0M	$1.0M	$0	$1.0M	$600,000
$50.0M	2.5x	$30.0M	$2.0M	$2.0M	$4.0M	$1,000,000

Three points come out of the arithmetic. First, the fees, $1.9 million over five years in this example, are earned whether or not the equity performs, which is why capital providers negotiate floors, caps and payment blocks. Second, the tiered carry concentrates the sponsor's upside in the scenarios where the partner does well: the step from 1.5x to 2.5x multiplies total carry by four. Third, the rolled closing fee is real at-risk capital, which is part of why the McGuireWoods study reports investors' "preference that at least a portion of the closing economics be reinvested."

Origination is the product

A committed fund can show investors a team and a strategy. An independent sponsor has to show a deal. The capital partner's first question is therefore about the target itself: how the sponsor found it, whether it is exclusive, and whether the sponsor's description survives independent checking.

That makes sourcing evidence part of the fundraising package. A sponsor that can show how the target was identified, what alternatives were screened out and why, and which facts were verified against records rather than taken from the seller, is answering diligence questions before they are asked. The case for and against off-market sourcing is examined in proprietary deal flow, which also reports the research that cuts against the usual claims.

The search burden also differs from a search fund. Stanford reports that a search fund typically takes around 20 months to acquire a company (Stanford GSB, 2026), but that search is funded by investors who committed search capital. An independent sponsor usually funds the equivalent period alone, so the efficiency of screening, finding out early which targets fail a mandate, matters directly to the sponsor's own cash.

Regulatory notes

This section describes rules as stated on Securities and Exchange Commission (SEC) pages. Those pages do not mention independent sponsors, and whether a particular sponsor or deal vehicle falls under any rule is a question for counsel.

Investment adviser registration. Rule 203(m)-1 exempts from registration a United States adviser that "acts solely as an investment adviser to one or more qualifying private funds" and "manages private fund assets of less than $150 million" (17 CFR 275.203(m)-1, eCFR); on October 28, 2026 the eCFR page (up to date as of October 27, 2026) showed the section's most recent change dated March 12, 2018. The SEC's guide explains that such "exempt reporting advisers are required to file a subset of the information requested by Form ADV with the Commission" (SEC, Rules 203(l)-1 and 203(m)-1 guide).

Form D. Companies selling securities without registration under Rule 504 or 506 of Regulation D must file a Form D notice "within 15 days after the first sale of securities in the offering," where the date of first sale is "the date on which the first investor is irrevocably contractually committed to invest." The SEC charges no filing fee (SEC, Filing a Form D notice, updated March 17, 2026). Because many deal vehicles raise equity this way, Form D filings are one public trace of sponsor-led acquisitions; what a Form D can prove sets out how far that evidence goes.

Closing economics. As noted above, McGuireWoods flags that the form of closing economics "can implicate regulatory and licensing considerations" and advises consulting counsel before structuring them.

What capital providers ask for

No public survey verified for this article lists capital providers' diligence requests, so the checklist below is a practical template rather than a measured standard.

- **The deal:** signed letter of intent, exclusivity terms, purchase price and structure, sources and uses.
- **The sourcing story:** how the target was found, whether it is in a broker process, and what competing interest exists.
- **Financial evidence:** historical financial statements, the scope of any quality of earnings work commissioned, and the basis of adjusted EBITDA.
- **The sponsor:** track record on prior deals, references, time commitment, and the proposed post-close role.
- **Economics:** proposed closing fee, management fee with floor and cap, carry model and hurdles, sponsor co-investment and rollover.
- **Costs at risk:** who bears broken-deal costs, and to what cap.
- **Governance:** board composition, consent rights and information rights.

Worksheet: a deal-by-deal term sheet

Fictional template. Fill in the blanks for your deal; the survey column is context, not a benchmark.

Term	Your deal	Survey context (source, year, basis)
Closing fee (% of enterprise value)	___	2% typical for 56% of respondents (Citrin Cooperman 2025)
Share of closing fee rolled	___	More than half rolled in about 60% of transactions (McGuireWoods 2022)
Management fee (% of trailing EBITDA)	___	5% in 60% of transactions (McGuireWoods 2022)
Management fee floor / cap	___ / ___	60% of transactions had both (McGuireWoods 2022)
Carry model	Tiered / straight	61% tiered (McGuireWoods 2022)
Hurdle basis and rates	___	MOIC most common in both surveys
Maximum carry	___	25% or more for 64% of respondents (Citrin Cooperman 2025)
Catch-up	Full / partial / none	Full for 74% of respondents (Citrin Cooperman 2025)
Broken-deal costs borne by sponsor	___	Often borne by a control PE partner (McGuireWoods 2022)

Docket's Triage agent asks a mandate's disqualifying questions before research is paid for, which is the step an unfunded search can least afford to skip.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://media.mcguirewoods.com/publications/2022/Independent-Sponsor-Survey-May2022.pdf
2. https://www.gsb.stanford.edu/insights/search-funds-keep-offering-proven-path-ownership
3. https://www.citrincooperman.com/In-Focus-Resource-Center/Uncharted-No-More-Fees-and-Carried-Interest-in-the-Independent-Sponsor-Sector
4. https://www.ecfr.gov/current/title-17/section-275.203%28m%29-1
5. https://www.sec.gov/about/divisions-offices/division-investment-management/topical-reference-guide/secg-rules-203-l-1-203-m-1-ia40
6. https://www.sec.gov/resources-small-businesses/exempt-offerings/filing-form-d-notice

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