Working with Fundless Sponsors

As we have reported many times in recent years, endowments, pensions, sovereign wealth funds, family offices and other large investors are working outside the typical private equity structure. In order to have greater discretion over the deals they allocate to and to avoid traditional fees, these investors are more and more looking to place capital via co-investments, direct investments, and club deals with other institutional investors. By no coincidence, fundless sponsors have risen to greater prominence and grown in number and size over recent years. Despite this shift in favor of fundless sponsors and a greater willingness by investors to allocate to the deals they lead, many family offices and other investors I meet with are still unfamiliar with what a fundless sponsor is and what separates a fundless sponsor from a traditional private equity investment vehicle.

So, what is a fundless sponsor? A fundless sponsor is a type of investment vehicle that executes private equity or alternative investment deals outside of the traditional fund structure. The fundless sponsor typically sources an investment opportunity, executes a Letter of Intent, and then reaches out to its investor network to raise capital for the specific deal. The fundless sponsor's actual involvement in the transaction varies, with some firms simply sourcing the target company and engaging capital partners while other fundless sponsors take a more hands-on role improving the company and structuring the deal from start to finish, as would a private equity sponsor.

At our recent CIO Summit, one of the speakers noted the emergence of fundless sponsors and that many of these entities were formed in the wake of the financial crisis and are led by former private equity executives who decided to strike out on their own. For at least a fair number of these firms, it is likely they would struggle to raise the amount of capital that their private equity peers routinely raise. But that speaks to a fundamental aspect of the fundless sponsor: these firms are executing investments on a deal-by-deal basis rather than raising a dedicated pool that is invested over 4-5 years in a number of different companies. Private equity firms and other equity funds raise capital from investors in order to make investments in companies and have explicit agreements signed by the Limited Partners to invest in the acquisition targets that the fund selects. In contrast, a fundless sponsor lacks the capital to execute a buyout and has to raise that money after securing the LOI.

These firms tend to be pretty selective in the deals they represent because they have greater flexibility in mandate and structure than a dedicated fund with an agreed-upon mandate for capital commitments. Given that most fundless sponsors are executing deals one at a time and not endlessly managing a pool of capital, fundless sponsors have less consistent revenues than if they enjoyed an annual management fee on assets under management. The firms are usually very lean and loosely structured with only a few partners and far less infrastructure than a traditional investment firm. The fees these entities charge varies and largely determined during negotiations with investors; many investors can needle down fees or gain concessions, especially with newly-formed fundless sponsors. All fees should be disclosed to investors and fundless sponsors have various methods for getting paid, from an acquisition fee to a carry on the success of the deal.

Family Office Training

Did you know that you can access great family office interviews and other training resources with your enrollment in the Qualified Family Office Professional program? The QFOP is the only family office training program designed for family office professionals, by family office professionals.

Our goal is to provide as much education and resources on the family office industry as possible and the QFOP is the most comprehensive family office training platform available. If you would like to enroll or learn more about whether this program is right for you, please visit: www.FamilyOffices.com/Training

Family Office Webinars

We have hosted dozens of webinars on topics such as coinvesting, creating a single family office, and selling your family business. If you would like to join our next webinar, simply reserve your place for one or more of the following webinars here: *www.FamilyOffices.com/Webinars*

$1B+ Single Family Offices
August 7, 2014 1PM EST

Co-Investing Lessons
August 21, 2014 1PM EST

Building Your Deal Flow Pipeline
September 10, 2014 1PM EST

www.FamilyOffices.com/Webinars