

# The Rise of Portfolio Companies in a Private Equity-Driven World



By [Jake Brannan](#) & [Paul Nowak](#)

Private equity has become one of the most influential forces shaping the global economy, and its growth is profound. In the United States, private equity-backed companies account for a meaningful share of economic activity, contributing to employment and GDP. What was once viewed as a niche investment strategy has become a core ownership model for small and medium-sized enterprises (SME), middle-market, and large businesses alike.

In recent years, private equity activity has remained at historically elevated levels. Portfolio company ownership periods have extended as sponsors increasingly focus on operational value creation rather than relying solely on financial engineering. Therefore, more businesses are operating under private equity ownership for longer durations.

Capital is no longer concentrated in a handful of sectors. It is deployed across healthcare, technology, franchise systems, industrial services, and consumer platforms, making private equity-backed businesses a meaningful force across the U.S. economy.

For insurance professionals, this introduces a critical and often underappreciated reality: many companies that appear to be standard private businesses are, in fact, operating as portfolio companies within a private equity structure.

Recognizing this distinction is essential. While these businesses may look similar on the surface, their governance, strategic direction, and risk profile are fundamentally shaped by private equity sponsors.

## What Is a Portfolio Company?

At its core, a portfolio company is an entity in which a private equity firm holds a controlling or significant equity stake. But that definition alone misses the point.

These businesses operate within a defined framework shaped by sponsor ownership, board representation, a defined growth plan, and a clear exit horizon, all of which align with investor interests and the broader objectives of the private equity fund.

In many cases, particularly in the SME or middle market, this ownership is not immediately visible. Yet that classification changes everything: how decisions are made, how accountability is shared, and how exposure develops over time.

## Portfolio Company Architecture and Exposure Reality

Portfolio companies retain the baseline exposures of any operating business: management decisions, employment practices, and fiduciary responsibilities. But they exist within a far more complex and dynamic structure than traditional private companies.

Sponsor-driven governance introduces a natural tension between ownership and control. Growth is often accelerated through M&A activity (acquisitions, integrations, and restructuring), creating continuous organizational change. Capital structures evolve through leverage and recapitalizations, shifting incentives across stakeholders. With all of it being driven by an exit-oriented strategy, and with key decisions aligning within the sponsors' investment structure.

Together, these dynamics do not operate independently, they interact continuously. As a result, exposure within a portfolio company is not static or isolated. It develops across layers of ownership, governance, and strategic activity. These conditions create more pathways to claims, not fewer.

At this point, the traditional distinction between the risk of a portfolio company and the risk of its sponsor begins to break down.

Private equity firms increasingly recognize that the risk profile of a portfolio company cannot be separated from the peripheral exposure they incur as a sponsor. Yet in practice, these exposures are often still evaluated independently, and separation rarely holds.

It is widely accepted that private equity-appointed directors receive protection under a portfolio company's D&O policy. However, that protection often stops short of the sponsor entity itself. In litigation, plaintiffs routinely assert claims against both the portfolio company and the sponsor, alleging that the sponsor exercised influence over key decisions, prioritized its own interests, or blurred the lines between governance and control.

These are not edge-case scenarios; they are central themes in modern claims involving private equity-backed businesses. When that misalignment surfaces in a claim, it is no longer theoretical. It becomes a coverage problem.

Importantly, these exposures do not remain isolated, they repeat and accumulate across the portfolio. Private equity firms evaluate exposure at the portfolio level and seek consistency across their investments.

## **Why Traditional ML Policies Fall Short**

Traditional private company management liability policies were designed for stable, standalone businesses with straightforward governance and exposures driven primarily by internal operations. Portfolio companies do not operate within that model.

Retrofitting a standard policy with endorsements may address individual elements of exposure, but it does not change the underlying structure of the policy itself. It remains a framework built for a different type of risk.

The result is often a patchwork structure that appears customized but still behaves like a conventional private company form when tested by a claim.

As a result, there is often a disconnect between how exposures develop and how coverage is expected to respond. Sponsors expect protection structured around their role in governance and decision-making. Portfolio companies expect balance sheet protection. Carriers are left

navigating policy language that was never designed to reconcile those dynamics. While this gap may not be obvious at placement, it becomes clear during a claim.

For private equity firms, the objective is more than simply coverage. It is consistency, predictability, and alignment across the portfolio. They are looking for programs that protect the company's balance sheet, operate cohesively across multiple investments, and respond to exposure arising from sponsor influence, oversight, and controlling shareholder dynamics.

## Closing Perspective

Private equity is not just changing who owns companies, it is changing how they operate, how decisions are made, and how risk develops over time.

Portfolio companies may resemble traditional private businesses, but their structure and the exposures that arise from it are fundamentally different.

Standard management liability frameworks were not designed for this reality. Applying them without accounting for the dynamics of private equity ownership creates an unclear solution between how risk exists and how coverage responds.

The conclusion is straightforward: this is not a coverage issue; it is a structural one. When the structure of the risk changes, the structure of the policy must change with it.

## About the Authors

Jake Brannan and Paul Nowak of Brown & Riding specialize in securing Management and Professional Liability coverage for financial institutions and private equity-backed portfolio companies and co-created the B&R PortfolioGuard Program to address these issues directly. For more information on B&R PortfolioGuard or to discuss how these dynamics may impact your clients, please reach out.



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