

An offensive tackle blocking the exit: Risks and Considerations in Private Equity's Play for Sports



Public pension fiduciaries should be cautious in considering private equity investments in professional sports franchises. In recent years, firms like Arctos Sports Partners and RedBird Capital have raised dedicated sports funds to capitalize on new league rules allowing institutional investment to acquire minority stakes in dozens of teams. This trend introduces unique risks that differ from traditional private equity investments, including inflated valuations, illiquid stakes, constrained exits, and limited governance control.¹

Trustees and advisors are urged to pause new commitments to sports-focused funds, scrutinize their governance and labor practices and demand greater risk disclosure. By exercising due diligence and oversight, public pension funds can protect beneficiaries from the uncertainties of this exotic "vanity" asset class.²

Are Sky-High Valuations Sustainable?

Over the last ten years, U.S. professional sport's team valuations have skyrocketed, far outpacing public markets.³ Record-high team values have raised concerns among industry insiders that current valuations are unsustainable.⁴ Even RedBird Capital founder Gerry Cardinale has cautioned sports investors to moderate expectations,

"The biggest risk investing in sports today is to get lulled into believing that values will always go up."⁵

Cardinale notes that some factors driving team prices upward in recent years (such as broadcast TV contracts) may not repeat, and some recent franchise sales closed below expectations.⁶ Cardinale's effort to bring a new NBA team to Las Vegas has stalled due to rapid growth of team valuations:

"We started this project three years ago. The price talk on an NBA team three years ago was \$3 billion. The price talk today on an NBA expansion team is \$5.5 to \$6 billion. I'm not sure I can make that work."⁷

Trustees should recognize that sports assets are not immune from market correction and carry valuation risk. Moreover, sports teams are unique, illiquid assets that may be difficult to sell.⁸

Illiquidity and Exit Constraints

Uncertainties around exiting investments in sports teams present one of the most significant risks of this asset class. Leagues restrict when and how private equity firms can sell their team positions through imposing minimum holding periods, limiting the number of teams a fund can own, and in some cases, league-approval may be needed to approve a buyer.⁹ As one private markets analyst noted, league rules add uncertainty to private equity exit plans,

"There is scarce data available right now about what the exit from that investment may look like."¹⁰

In assessing the potential risks of investing in an Arctos sports fund, the Deputy CIO for the Kentucky Public Pension Authority noted that sports franchises were a "difficult asset to exit" due to the fact that there is a "limited investment universe" and the "fund term may be extended at GP discretion."¹¹