



Structural Reform in Co-Investment: Key Amendments to AIF Regulations

Co-investment refers to offering investment opportunities to the investors of Category I / Category II Alternative Investment Fund (“AIF”) for additional investment in unlisted securities of an investee company, wherein the AIF itself is concurrently investing.

Main advantage of Co-investment is to increase pool of available capital for the investment manager for larger deals and greater diversification resulting in better economies and reduction of deal related expenses.

In 2021, the Securities and Exchange Board of India (SEBI) amended both the SEBI (Alternative Investment Funds) Regulations, 2012 (“SEBI AIF Regulations”) and the SEBI (Portfolio Managers) Regulations, 2020 (“SEBI PMS Regulations”) to enable co-investment opportunities through the Co-Investment Portfolio Management Services route (“Co-PMS”). These regulatory changes aimed to resolve operational challenges previously faced by investment managers under the portfolio management¹ and investment advisory² regimes.

Despite these reforms, the current Co-PMS framework presents certain limitations. Investment managers often incur additional costs and face procedural hurdles when extending co-investment rights to investors. These constraints have hindered their ability to participate in large ticket deals alongside co-investors. Moreover, the involvement of numerous co-investors has led to administrative and governance complexities for portfolio companies, given the diversity and volume of participants. This has, in turn, delayed transaction closures and resulted in missed investment opportunities.

To address these issues particularly the need to avoid separate portfolio manager registration and the complications of having multiple shareholders on a portfolio company’s cap table, SEBI released consultation paper dated May 30, 2025³ based on recommendations from its internal committees which proposed the introduction of a Co-Investment Vehicle scheme (“Co-investment Scheme”), a side car AIF for pooling co-investors, in addition to Co-PMS framework, which would allow investment managers to launch dedicated Co-investment Schemes for each co-investment opportunity, thereby streamlining investor participation and operational execution.

Based on recommendations of internal committees and public comments on consultation paper, SEBI vide circular dated September 09, 2025⁴ amended SEBI AIF Regulations to permit Category I AIF and Category II AIF to offer co-investment facility to accredited investors through Co-investment Scheme in addition to Co-investment currently being facilitated to investors of AIFs through Co-PMS.

A. Co-investment Scheme

In this regard, SEBI has laid down the following operational modalities for implementing the Co-investment Scheme.

1. Co-investment scheme

¹ Discretionary portfolio managers not permitted to invest funds of clients in unlisted securities, non-discretionary or advisory services not permitted to invest / advise more than 25% of asset under management of the clients.

² Investment advisory route not enabled investment manager to maintain alignment of interest of investors of AIF with that of co-investors due discretion available to co-investor to take investment decision including exit from investments.

³ Consultation paper on providing flexibility to AIFs to offer Co-Investment opportunities dated May 09, 2025 - https://www.sebi.gov.in/reports-and-statistics/reports/may-2025/consultation-paper-on-providing-flexibility-to-aifs-to-offer-co-investment-opportunities-to-investors-within-the-aif-structure-under-aif-regulations_93883.html

⁴ SEBI Circular dated September 09, 2025 on Framework for AIFs to make co-investment - https://www.sebi.gov.in/legal/circulars/sep-2025/framework-for-aifs-to-make-co-investment-within-the-aif-structure-under-sebi-alternative-investment-funds-regulations-2012_96506.html



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The Investment Manager launches a scheme under AIF by filling a shelf placement memorandum with SEBI, to facilitate co-investment to investors of the AIF for investment in unlisted securities of an investee company where such AIF is currently investing or has invested.

2. Shelf placement memorandum

The Investment Manager shall file shelf placement memorandum⁵ with SEBI along with applicable fees (INR 1,00,000 plus GST) prior to the Co-investment opportunity being offered to the investors of AIFs through Co-investment Scheme.

3. Separate scheme

A separate co-investment scheme shall be launched for each co-investment, in accordance with the shelf placement memorandum filed with the SEBI.

4. Eligible investors

Only accredited investors of the Category I or Category II Alternative Investment Fund shall be eligible to invest in a co-investment scheme.

5. Single Investee Company

Each co-investment scheme shall invest in only one investee company.

6. Investment in units of AIFs

A co-investment scheme shall not invest in units of AIFs.

7. Terms of Co-investment

The terms of co-investment in an investee company by a Manager or Sponsor or Co-investor or a co-investment scheme shall not be more favourable than the terms of investment of the AIFs.

8. Exit of Co-investment

The timing of exit from the Co-investment in an investee company shall be identical to the exit of the AIFs from the investment in the investee company.

9. Winding of Co-investment scheme

The Co-investment scheme shall be wound up on exit from the co-investment in terms of SEBI AIF Regulations.

10. Ring-fencing of Co-investment Scheme

Each Co-investment Scheme shall have separate bank account and demat account and assets of each Co-investment Scheme shall be ring fenced from assets of the other schemes.

11. Cap on Co-investment per investee company

An investor's co-investments across Co-investment Schemes in a single investee company shall not exceed three times their contribution through AIF in such a investee company.

Above restriction does not apply to following investors of AIF:

⁵ Template of shelf placement memorandum - https://www.sebi.gov.in/sebi_data/Template_Shelf_Placement_Memorandum.pdf



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- i. Multilateral or Bilateral Development Financial Institutions
- ii. State Industrial Development Corporations
- iii. Entities established or owned or controlled by the Central Government or a State Government or the Government of a foreign country, including Central Banks and Sovereign Wealth Funds

12. Restriction on Co-Investment for Excused, Excluded, or Defaulting Investors

Investors excused, excluded, or in default in investments of the schemes of AIF shall not be permitted to co-invest in the corresponding investee company.

13. Restriction on investment by Co-investment Scheme

The Investment Manager shall ensure that the Co-investment Scheme does not make any investment:

- i. Resulting in investors indirectly acquiring or holding an interest or exposure in an investee company that they are otherwise restricted from holding directly.
- ii. Triggering additional regulatory disclosures had the investment been made directly by the investor.
- iii. Involving investee companies that are prohibited from accepting direct investments from such investors.

14. Borrowing

Co-investment Scheme shall not borrow funds directly or indirectly or engage in any kind of leverage.

15. Pro-rata Rights

Investors of a Co-investment Scheme shall have rights in the investment and in the distribution of proceeds of the investment, pro-rata to their contribution to the Co-investment Scheme, except to the extent carried interest (or additional return or whatever name it is called) that is shared with the sponsor or manager of the AIF or employees/directors/partners of the manager of AIF.

16. Sharing of expenses

Any expenses associated with co-investment shall be shared proportionately between the AIF and Co-investment Scheme in the ratio of their investments.

17. No Co-investment Scheme for Angel Fund

An Angel fund shall not launch a Co-investment scheme.

18. Regulatory Relaxations Applicable to Co-Investment Schemes

The following exemptions from the SEBI AIF Regulations apply to co-investment schemes:

- i. No minimum corpus requirement (i.e., INR 20 crores applicable to AIFs does not apply).
- ii. No obligation for the Investment Manager or Sponsor to maintain continuing interest.
- iii. No requirement to declare the first close of the co-investment scheme.
- iv. No minimum tenure prescribed.
- v. Investments outside India are not permitted.
- vi. Investment diversification norms are not applicable.
- vii. Investment in units of other AIFs is not permitted.



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- viii. Not permitted to act as a Nominated Investor for subscribing to unsubscribed portions of an issue or for receiving/delivering securities during market making under SEBI ICDR Regulations.
- ix. Investment restrictions applicable to Category I and Category II AIFs under Regulations 16 and Regulations 17 of SEBI AIF Regulations are not applicable to Co-investment Scheme.

B. Co-PMS

Under current Co-PMS regime, the Investment Manager can offer co-investment opportunities to the investors of the AIF through a Co- investment Portfolio Manager as specified under the SEBI PMS Regulations.

However, under Co-PMS regime, the Investment Manager requires an additional SEBI registration as a Portfolio Manager under SEBI PMS Regulations.

The Co-PMS route enables offering of the co-investment opportunities to wider range of investors and not restricted to only accredited investors as like Co-investment Scheme.

Co-investment through the Co-investment Scheme offers additional flexibility but requires safeguards to prevent concealing investor identity and circumventing regulatory frameworks. In contrast, the Co-PMS route inherently discloses the co-investor's identity, thereby requiring less regulatory oversight. Given its transparency and operational utility, the SEBI has continued Co-PMS route alongside the Co-investment Scheme.

However, the Investment Manager of AIFs shall offer one of either Co-PMS route or Co-investment Scheme route for a co-investment by an investor in an investee company.

C. Analysis of New Regime

The introduction of the Co-investment Scheme under SEBI's amended AIF Regulations represents a strategic refinement of India's co-investment architecture. By permitting Category I and II AIFs to launch dedicated co-investment schemes for each opportunity, SEBI has addressed key operational inefficiencies particularly the need for separate portfolio manager registration and the governance complexities arising from multiple direct co-investors. The scheme's structure, anchored by a shelf placement memorandum and ring-fenced assets, ensures regulatory clarity while preserving investor alignment through pro-rata rights and synchronized exits. Notably, the regime offers regulatory flexibility by exempting co-investment schemes from several standard AIF requirements, including minimum corpus, tenure, and continuing interest obligations.

Further, the circular provides that implementation standards, if any, formulated by the SFA in consultation with SEBI, shall be adopted by AIFs, their Managers, and Key Management Personnel to ensure compliance with the provisions of the Co-investment Scheme. These standards may include additional compliance obligations such as annual audits to verify adherence to the shelf placement memorandum, mandatory appointment of custodians, and valuation protocols. While participation under the Co-investment Scheme is limited to accredited investors and each scheme is restricted to a single investee company, the dual-track framework via Co-PMS and Co-investment Schemes offers investment managers a more versatile and operationally efficient toolkit to pursue large-ticket transactions while maintaining governance discipline and regulatory integrity.

For any queries in relation to this alert, please feel free to reach out.