

CIRCULAR

SEBI/HO/AFD/AFD-POD-1/P/CIR/2025/126

September 09, 2025

To,

All Alternative Investment Funds (AIFs)

Sir/Madam,

**Sub: Framework for AIFs to make co-investment within the AIF structure under SEBI
(Alternative Investment Funds) Regulations, 2012**

1. With an objective to enhance ease of doing business for Alternative Investment Funds (“AIFs”), Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (‘AIF Regulations’), have been amended and notified on September 09, 2025 to permit Category I and Category II AIFs to offer co-investment facility to accredited investors by launching a separate co-investment scheme (“CIV scheme”) within AIF Regulations. This is in addition to the co-investment currently being facilitated to investors of AIFs through Co-investment Portfolio Managers under SEBI (Portfolio Managers) Regulations, 2020 (“PMS route”).
2. In terms of sub-regulation 7 of regulation 17A of AIF Regulations, co-investment through a CIV scheme shall be carried out by manager of Category I or Category II AIFs in the manner and subject to the conditions as may be specified by the Board from time to time. In this regard, below mentioned operational modalities are being specified by this circular:
 - 2.1. Managers of AIFs shall make co-investment for an investor in an investee company either through PMS route or CIV scheme route.
 - 2.2. In terms of regulation 17(A)(2), manager of AIF shall file a shelf placement memorandum (template available at [Annexure](#)), that *inter alia* includes, principal terms relating to co-investments, governance structure, and regulatory framework for co-investment, etc.
 - 2.3. Each CIV scheme shall have separate bank account and demat account and assets of each CIV scheme shall be ring fenced from assets of the other schemes.
 - 2.4. Co-investments of an investor in an investee company across CIV schemes shall not exceed three times of the contribution made by such investor in the total investment made in the said investee company through the scheme of the AIF to which aforesaid CIV schemes are affiliated.

However, the aforesaid restriction shall not apply to the following types of investors (i.e. these investors may invest any amount in an investee company through CIV schemes):

- 2.4.1. Multilateral or Bilateral Development Financial Institutions;
- 2.4.2. State Industrial Development Corporations;
- 2.4.3. 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.
- 2.5. In case an investor of a scheme of an AIF excused / excluded or has defaulted in contributing to the investment made in an investee company by such scheme of AIF, such investor shall not be allowed to co-invest in the said investee company.
- 2.6. The manager shall ensure that the CIV scheme does not make any investment:
 - 2.6.1. that would lead to its investors acquiring or holding an interest/exposure in an investee company indirectly, that they cannot acquire or hold directly,
 - 2.6.2. that would necessitate additional regulatory disclosure if they had invested directly
 - 2.6.3. where the investee company cannot receive investments from such investor directly.
- 2.7. CIV Scheme shall not borrow funds directly or indirectly or engage in any kind of leverage.
- 2.8. Investors of a CIV scheme shall have rights in the investment of the CIV scheme and in the distribution of proceeds of the investment, pro-rata to their contribution to the CIV scheme, except to the extent carried interest (or additional return or whatever name it is called) is shared with the sponsor or manager of the AIF or employees/directors/partners of the manager of AIF.
- 2.9. Any expenses associated with co-investment, shall be shared proportionately between the scheme of AIF and CIV scheme in the ratio of their investments.
- 2.10. CIV scheme shall be subject to implementation standards, if any, formulated by Standard Setting Forum of AIF, in consultation with SEBI, to ensure that the investment by CIV scheme are made for *bona-fide* purposes and that the flexibility extended in this regard is not misused.
3. The implementation standards, if any, formulated by SFA in consultation with SEBI, shall be adopted by AIFs, Managers of AIFs and their Key Management Personnel for compliance with the provisions of this circular. Such implementation standards shall be published on websites of the industry associations which are part of the

SFA, i.e., Indian Venture and Alternate Capital Association (IVCA), PE VC CFO Association and Trustee Association of India.

4. The trustee/sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of Chapter 15 of Master Circular for AIFs, includes compliance with the provisions of this circular.
5. This circular shall come into force with immediate effect.
6. This circular is issued with the approval of the competent authority.
7. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Regulations 17A(7) and 36 of AIF Regulations, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
8. The circular is available on SEBI website at www.sebi.gov.in under the categories "Legal framework - Circulars" and "Info for - Alternative Investment Funds".

Yours faithfully,

Aparna Thyagarajan
Chief General Manager
Tel no.: +91-22-26449024
aparnat@sebi.gov.in