Co-investment may slip its leash as rules relax for big-ticket plays

Compliance walls could begin to crack as sovereign and pension money nose their way in

Many deep pocketed institutions have embraced co-investment, according to the India Private Equity Report 2025 by consultancy Bain & Company.

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Regulatory changes could give further momentum to a segment that has gained increasing traction since 2022.

Co-investment under the portfolio management services (PMS) route accounted for less than ₹50 crore in assets and involved fewer than a dozen clients for much of 2022. Since then, assets under management have risen to ₹3,812 crore across 535 clients as of April 2025, according to the latest regulatory data. The recent changes may open the door to greater investment from sovereign wealth and pension funds, experts say.

Co-investment is a practice followed by alternative investment funds (AIFs), which often pool money from wealthy investors to allocate to startups and other unlisted firms. Illustratively, if a startup aims to raise $250 million, an AIF may invest $200 million and then enable its investors to put in the remaining $50 million individually, over and above their contribution to the AIF. The Securities and Exchange Board of India (Sebi) formalised co-investment via the PMS route in December 2021.

On June 18, the regulator announced a new framework allowing AIFs to create a separate entity called a Co-investment Vehicle (CIV), which is expected to ease compliance requirements for such investments.

"...the board approved the proposal to permit Category I and II AIFs to offer the CIV scheme under the Sebi (Alternative Investment Funds) Regulations, 2012. This will further facilitate AIFs and investors to co invest and support capital formation in unlisted companies through AIFs," according to a regulatory statement.

Many deep pocketed institutions have embraced co-investment, according to the India Private Equity Report 2025 by consultancy Bain & Company. "As limited partners such as sovereign wealth funds and public pension funds increasingly prioritise direct investments and co-investment structures, funds must demonstrate strong operational value creation to secure commitments in a competitive capital raising environment," it said.

Sovereign wealth and pension funds are expected to benefit the most from the regime, and assets in this segment could pick up sharply, said Ipsita Agarwalla, a leader at Nishith Desai Associates.

The International Financial Services Centres Authority (IFSCA) introduced regulations for co-investment in May, she added. The IFSCA governs activities within centres like the Gujarat International Finance Tec City International Financial Services Centre (GIFT IFSC).

“There is strong demand for a very flexible co-investment regime,” she said, noting that co-investment is typically not regulated in other jurisdictions.

“Previously, many funds and investors had to sign up for the PMS route and were subject to additional compliance requirements as a result,” said Vivek Mimani, a partner at Khaitan & Co. “The new regime will do away with cumbersome documentation and is likely to drive a sharp increase in the use of this route.” “I think co-investment… should gain much more traction,” he added.

Both the PMS and the new co-investment regime will continue to operate, with accredited investors using the latter route. An accredited investor is a special category with access to sophisticated products that may not be available to the general public, subject to minimum net worth and other criteria. The process for becoming an accredited investor is not too cumbersome, said Mimani.