

# Unlocking domestic capital

## Key to India's AIF growth

December 2025

Co-presented by

**360  
ONE**



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# Foreword: IVCA



**Rajat Tandon**  
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India is entering a defining chapter in its economic story. As we move steadily toward becoming the world's third-largest economy by 2030, one truth has become increasingly clear: the depth and strength of India's domestic pools of capital will shape the next phase of our nation's growth.

Over the past few years, the Government of India and our regulators have taken thoughtful, forward-looking steps that have strengthened confidence in the alternative investment ecosystem. Regulatory reforms around PPM audits, valuation standards, accredited investors, co-investment pathways, and dematerialisation have evolved at a pace few markets have matched. These interventions have given India a governance framework that is both modern and trusted — a key reason why AIF commitments have grown 16x, from Rs 0.84 lakh crore in 2017 to Rs 13.49 lakh crore in 2025, making AIFs the fastest-growing managed product in the country.

The momentum on domestic participation is equally encouraging. According to SEBI data, domestic LPs now contribute 52.7% of the capital raised in Category I & II AIFs, up from 50.3% just a year earlier. In parallel, government-backed domestic institutions have collectively committed Rs 24,293 crore across SIDBI, SRI Fund, NIIF, EDF, NABARD, TDB and BIRAC programmes. These are strong signals of growing national confidence in private markets as a nation-building asset class.

At IVCA, our recent Domestic Institutional Investor Roundtables across Mumbai, Delhi, Bengaluru and Hyderabad reaffirmed something vital: India's domestic institutions are ready for deeper participation in private markets. Their confidence in the asset class is rising, and their demands — more transparency, smoother reporting, better liquidity structures and tighter regulatory coordination — reflect a sector moving into its next phase of maturity. We have taken these insights into our ongoing dialogues with the Ministry of Finance, SEBI, PFRDA, IRDAI and RBI, and the alignment we are seeing gives us strong confidence that domestic capital will play a defining role in the years ahead.

This report — produced by IVCA-360 ONE- Crisil, comes at an important moment. It shows an industry that is both growing and performing. Venture capital AIFs have delivered pooled IRRs of 22.9%, consistently outperforming public benchmarks across cycles, while debt and real-estate AIFs are demonstrating faster return of capital — with 28–34% of funds having already achieved DPI=1 within 4–6 years. These are markers of a resilient, maturing ecosystem with credible risk-return characteristics.

As India prepares for its next decade of growth, the role of domestic capital will be fundamental. AIFs are uniquely positioned to channel this capital into the engines of India's future — innovation, infrastructure, manufacturing, climate action and deep-tech. IVCA remains committed to supporting this evolution by advocating for enabling policies, strengthening industry practices, guiding new domestic investors, and helping build a vibrant, globally competitive domestic capital ecosystem.

A stronger domestic investor base — spanning institutions, pensions, insurers, family offices and resident HNIs — can help shape the future of India's startup, SME and high-growth sectors, many of which will become tomorrow's market leaders. Entering these sectors earlier creates the potential for steady, long-term value creation. With this alignment of opportunity and capability, the coming decade can truly be India's decade of domestic capital.



# Foreword: Crisil



**Jiju Vidyadharan**  
Senior Director  
Crisil Intelligence

Private market investments in India have seen a surge in deal activity and volume over the past decade given the country's strong growth trajectory.

The share of investments by Category I and II alternative investment funds (AIFs) in private market investments has also shown an increasing trend, indicating AIFs are becoming an integral part of private markets. As such, AIFs are among the fastest-growing managed products in India.

In coming years, the AIF industry is expected to clock healthy growth, backed by supportive regulatory frameworks, a growing startup ecosystem, investor demand for diversified investment options, funds set up by the government and a surge in initial public offerings.

AIFs play a pivotal role in the country's funding landscape by providing capital to companies that are usually not financed by traditional sources such

as banks and non-banking financial companies. They act as a medium to channel money to such companies from a growing number of family offices and wealthy individuals in the country as well as other domestic and foreign investors.

AIFs present not only a pathway for diversification but also opportunities for higher returns through strategies suitable for different classes of investors, making them an attractive addition to investment portfolios.

It is, however, imperative for investors to carefully assess the risks associated with investments in AIFs, many of which fund early-stage startups and smaller, unlisted companies. Selection of an AIF manager, thus, becomes critical.

Domestic institutional investors, such as retirement funds, insurance companies and banks, are allowed to invest in AIFs as per their investment guidelines. However, they have either not made such investments or have not fully utilised their investment limits because of operational and transparency hurdles. Globally, these institutional investors opt for alternatives to gain higher returns and diversify their portfolios.

A coordinated effort from all stakeholders, including industry bodies, the regulator and entities, to overcome these hurdles can help tap the full potential of the AIF industry.

We thank everyone who has helped bring out this report. We hope it provides investors an opportunity to understand and explore the use of this newer asset class as an investment option.



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# Executive summary

India is poised to become the world's third-largest economy by 2030, with its GDP projected to grow from \$3.9 trillion to \$6.6 trillion. Private markets, particularly alternative investment funds (AIFs), will play a vital role in facilitating this growth.

As of March 2025, AIFs have become an integral part of India's managed product mix, with total commitments reaching Rs 13.49 lakh crore and growing at a compound annual growth rate (CAGR) of 31.5% from FY21 to FY25. There are currently over 1,600 AIFs registered.

The growth of AIFs is driven by investors seeking diversification, increased domestic investor participation, a supportive regulatory framework, and a vibrant start-up ecosystem.

Domestic investors, including high-net-worth individuals (HNIs), family offices, private and public/sovereign institutions, and funds of funds, contribute 52.7% of the capital in Category I and II funds.

AIFs offer tailored strategies for long-term investors, including venture capital and private equity funds, as well as options for those seeking intermittent payouts through debt and real estate funds.

Government-backed domestic institutions have collectively committed Rs 24,293 crore across SIDBI, SRI Fund, NIIF, EDF, NABARD, TDB and BIRAC programmes. These are strong signals of growing national confidence in private markets as a nation-building asset class. Research Development and Innovation Fund (RDIF), a flagship initiative under the Department of Science and Technology (DST), has been recently approved by Union Cabinet, that aims to catalyse private sector investment in R&D with a total outlay of Rs 1 lakh crore over six years.

Indian general partners (GPs) are maturing, having consistently delivered strong performance and returns. Venture capital funds have outperformed the BSE Sensex PME+ in all benchmarking cycles since March 2022, achieving an impressive average alpha of 15.1%. Real estate and debt funds have also demonstrated strong distribution performance, with

58.5% and 47.4% of funds, respectively, returning 50% of the invested capital by September 2024.

The AIF ecosystem is maturing and approaching an inflection point that necessitates new pools of Limited Partners (LPs) capital to sustain its growth trajectory.

However, domestic institutional investors (DIIs) including banks, retirement funds, pension funds, and insurance companies, are currently contributing a relatively smaller portion of annual investments in Indian alternative assets. This presents a strong opportunity for growth, as increasing participation from these institutions can further deepen the ecosystem. With greater awareness, smoother operational processes, and continued enhancements in transparency and liquidity, the share of domestic institutions in the alternative investment landscape is poised to rise significantly

If DIIs leverage their guidelines to invest in AIFs, it could catalyse the industry's next growth phase. Even partial utilisation of these limits could lead to substantial growth, significant for funding start-ups and infrastructure projects. Within the report we have identified the untapped potential for the DIIs, for investments in AIFs.

The current landscape of the Indian public market underscores the importance of DII participation. DIIs now dominate public market equity trends, influencing pricing for IPOs, qualified institutional placements and preferential allotments. This shift indicates Indian stocks are increasingly insulated from foreign institutional investor flows and macroeconomic trends unrelated to the Indian economy.

Similarly, the private market requires stable, long-term capital to support entrepreneurs engaged in nation-building initiatives while delivering superior risk-adjusted returns over time. This report is a clarion call for patient capital to utilize investment headroom in AIFs.

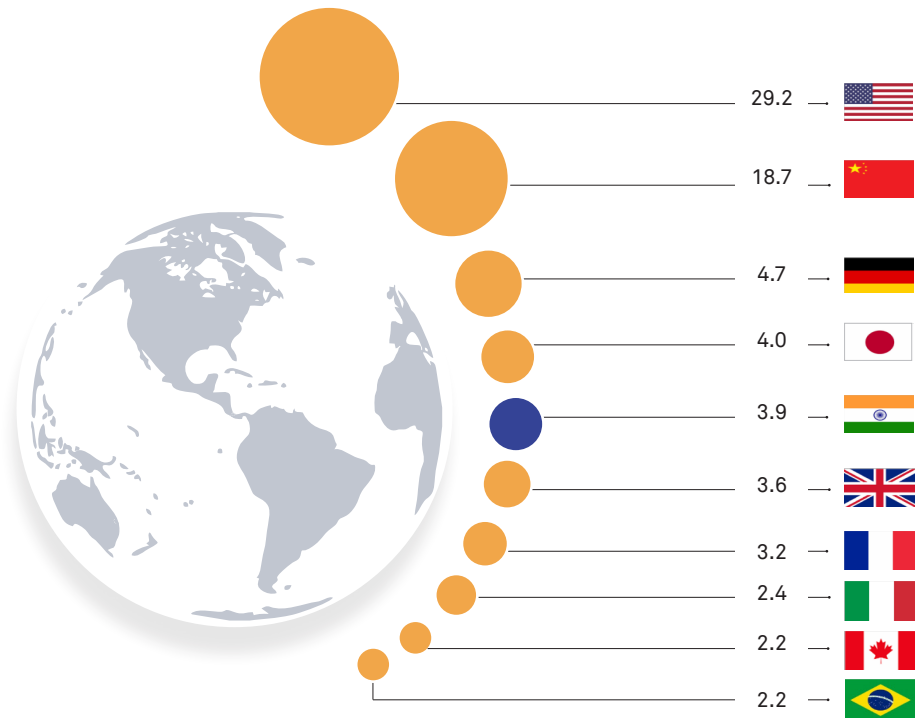
# The case for investing in India

## On course to be the third-largest economy

According to the International Monetary Fund (IMF), India is projected to become the world's third-largest economy by 2030, with its gross domestic product (GDP) expected to surge to \$6.6 trillion, representing a significant increase from the \$3.9 trillion recorded in December 2024.

The country's economic journey from the 9th position in 2010 to the projected 3rd rank represents an increase of ~300% in GDP over two decades.

GDP of major economies as of December 2024 (\$ trillion)



Source: World Bank

In its October update, the IMF raised the GDP growth forecast for India for 2025, based on its strong domestic fundamentals amid global shocks. Domestic demand is improving, and the government has enough room to provide policy stimuli, given low inflation and continued fiscal consolidation. India outperformed its global counterparts (see table

below) over fiscals 2023-2025 and will remain one of the fastest growing, at 6.6 % in 2025, the IMF update said.

Meanwhile, global growth is projected to decelerate from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026.

**India's Real GDP projected to grow at 6%+**



	Brazil	China	India	United States	Euro Area	Japan	Germany
2019	1.2%	6.1%	3.9%	2.6%	1.6%	-0.4%	1.0%
2020	-3.3%	2.3%	-5.8%	-2.1%	-6.0%	-4.2%	-4.1%
2021	4.8%	8.6%	9.7%	6.2%	6.4%	2.7%	3.9%
2022	3.0%	3.1%	7.6%	2.5%	3.6%	1.0%	1.8%
2023	3.2%	5.4%	9.2%	2.9%	0.4%	1.2%	-0.9%
2024	3.4%	5.0%	6.5%	2.8%	0.9%	0.1%	-0.5%
2025P	2.4%	4.8%	6.6%	2.0%	1.2%	1.1%	0.2%
2026P	1.9%	4.2%	6.2%	2.1%	1.1%	0.6%	0.9%
2030P	2.5%	3.4%	6.5%	1.8%	1.1%	0.5%	0.7%

2019 2020 2021 2022 2023 2024 2025P 2026P 2030P

Note: 1. All forecasts are by the IMF. GDP growth is based on constant prices. Data represented is for calendar years. Growth numbers for India until 2026 are for financial year, 2025 is as per the National Statistics Office's second advance estimates for fiscal 2025. Post fiscal 2025, all estimates for India are as per the IMF and for calendar years. Data represented for other countries is for calendar years.

2. Euro Area includes Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, and Spain

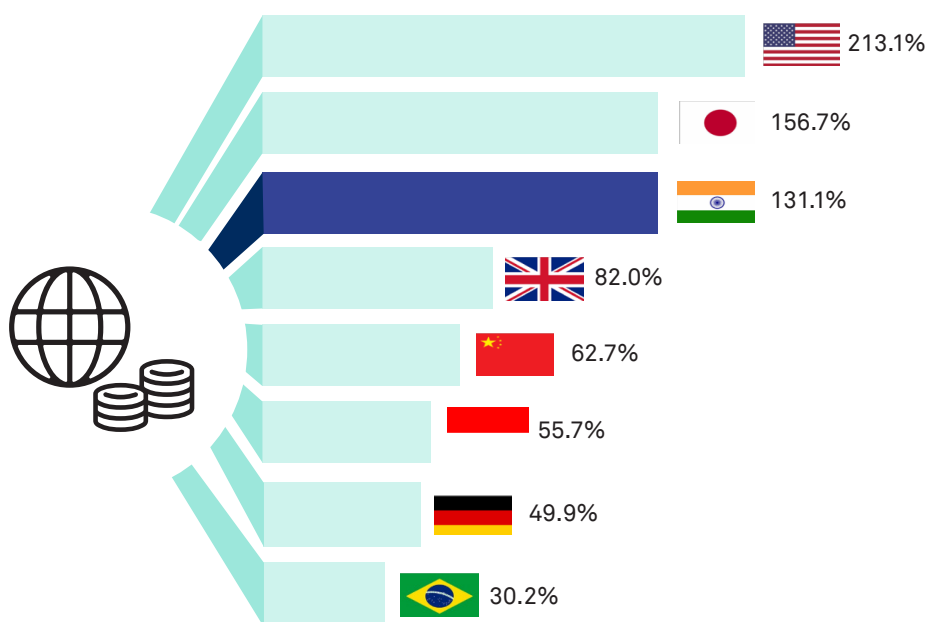
Source: IMF (World Economic Outlook – October 2025)

## Ample growth opportunity and a large addressable market

India has established itself as the world's fourth-largest equity market with a total market capitalisation of \$5.131 trillion (Rs 446 lakh crore) as of December 2024. Unlike other emerging markets, excluding China, India boasts a unique combination of depth and breadth across various industry sectors, making it an attractive destination for investors. The country's large addressable market, coupled with sustained domestic inflows and rising foreign direct investment (FDI) are expected to drive economic growth.

India's 131.1% ratio is approaching the levels seen in developed countries such as the US and Japan, suggesting either premium valuations or higher growth expectations embedded in stock prices. It significantly exceeds other major emerging markets, with China at 62.7% and Brazil at 30.2%, indicating superior growth prospects.

Market capitalisation of companies as % of GDP (December 2024)



Source: World Bank Group: Market Capitalization

## FDI inflows increasing with strong equity performance and stabilising yields

Indian equities have delivered a strong performance over the medium and long terms, signifying consistent economic growth, a resilient corporate sector and supportive demographics. The CAGR for

MSCI India between September 2020 and September 2025 remains among the highest, at 14%, reinforcing India's status as a high-growth market.

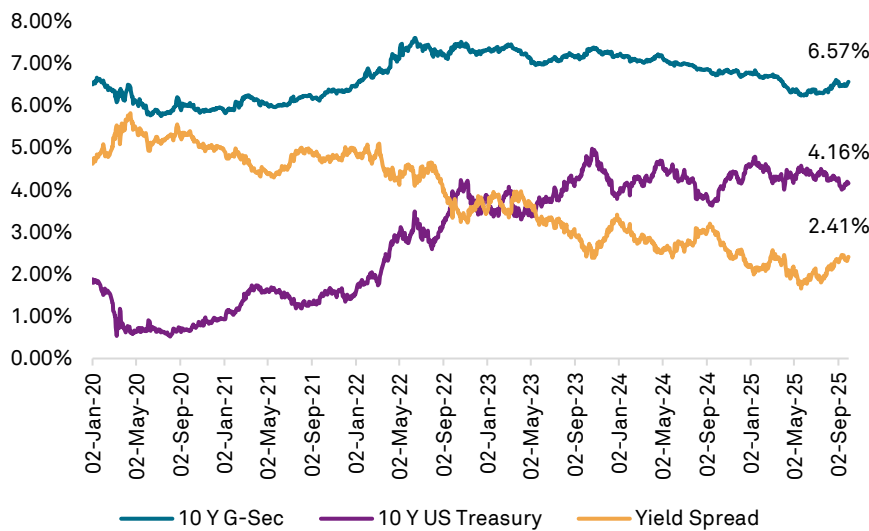
Index	1 year	3 years	5 years	10 years
MSCI India	-11.09%	11.45%	14.01%	9.55%
MSCI EM (Emerging Markets)	18.17%	-5.06%	7.51%	8.43%

Source: MSCI latest data as of September 2025

Over the long term, the Indian equity market has outperformed its peers by a substantial margin, with returns growing twice in value since CY 2019. A key growth driver is the sustained rise in consumption spending, which accounts for ~61.4% of India's GDP. Urban consumption and a shift towards luxury goods

are emerging as key catalysts of this momentum, making India an attractive destination for investors. Overall, the country's economic resilience and growth prospects remain strong, driven by its robust domestic fundamentals and effective policy support.

**Declining yield spreads of India 10-year G-sec vs 10-year US treasury**



Source: US Department of Treasury, Crisil Intelligence

The Indian government bond market stands out for its stability and higher yields compared with other emerging markets. With foreign ownership still relatively low and strong demand from domestic insurance and pension funds, Indian government bond yields have exhibited less volatility than their counterparts.

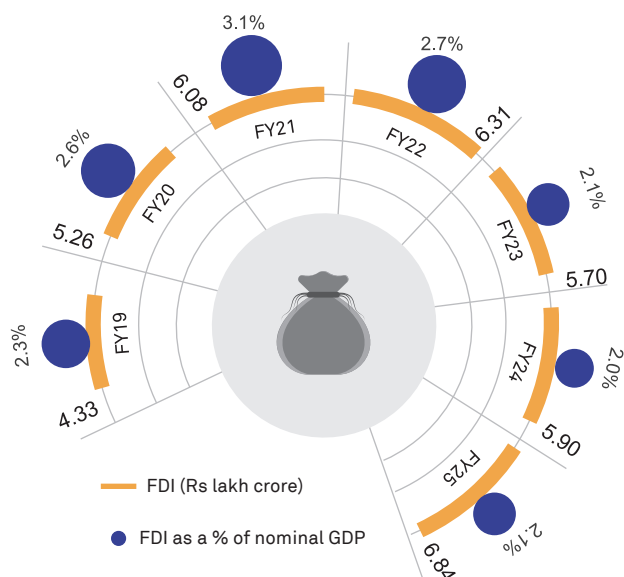
The narrowing of the yield gap between India and the US could be a positive indicator of the stability of the rupee. Traditionally, the rupee has experienced an annual depreciation of 3-5% against the US dollar. However, with the yield difference now narrowing to around 2%, it is likely that such consistent yearly depreciation may become less frequent, suggesting a more stable outlook for the Indian currency.

India has emerged as a prominent destination for foreign capital inflows, driven by its robust economic growth, expanding domestic markets and policy reforms. The country's capital inflows comprise FDI, foreign portfolio investments, investments from venture capital (VC) and private equity (PE) funds, as well as external borrowings. These inflows play a vital role in its economic development.

The Indian economy has been resilient due to government stimulus and focus on self-reliance.

Last fiscal, gross FDI inflows increased 16% on-year, driven by the highest investment in the services sector. According to data released by DPIIT, Ministry of Commerce and Industry, the

**FDI in India (Rs lakh crore) and FDI as % of nominal GDP**



Source: Ministry of Statistics and Programme Implementation (MoSPI), Department for Promotion of Industry and Internal Trade (DPIIT)

cumulative amount of gross FDI inflows, including equity, reinvested earnings and other capital, crossed \$1 trillion (\$1,072.34 billion) between April 2000 and March 2025. This achievement can be

attributed to continued efforts towards innovation, competitiveness, policy reforms and creating a favourable business environment, which has improved India's standing in global investments.

## Climbing the innovation ladder

According to the Global Innovation Index 2025 report, India has significantly improved its ranking, moving up to the 38th place from 66th in CY 2013. This progress is a testament to the country's growing innovation-driven economy, with exceptional performance in areas such as Information and communication technology services exports, late-stage venture capital deals, intangible asset intensity and unicorn valuation. This upward trend indicates that emerging economies like India are increasingly investing in innovation, education and digital transformation, allowing them to narrow the gap with developed nations in the global innovation landscape.

India has four innovation clusters: Bengaluru, Delhi, Mumbai and Chennai. Three of these clusters have achieved significant advances in the global ranking, with Bengaluru rising to 21st, Delhi to 26th and Mumbai to 46th position. The Bengaluru and Delhi clusters have entered the global top 30, while Mumbai has made it to the top 50.



### To summarise

India is projected to become the world's third-largest economy by 2030, with its GDP rising to \$6.6 trillion from \$3.9 trillion, marking an improvement from the 9th position in just two decades.

The country's robust domestic fundamentals, coupled with rising FDI and growing equity market, is expected to create fertile ground for sustained economic growth. That, along with ongoing reforms and focus on self-reliance, will only strengthen India's position as an attractive investment destination.

The emergence of innovation-driven start-ups has invigorated India's private markets, which, if sustained, will benefit the alternative investment fund (AIF) industry. Increased participation by domestic institutional investors (DIIs) can significantly enhance capital inflows and market stability. By investing in key sectors like technology, infrastructure, and consumer goods through AIFs, these investors can diversify their portfolios and support economic growth.

Active engagement with AIFs will not only contribute to India's economic resilience but also help realise the full potential of its capital markets, ultimately benefiting the investors and the economy alike.

# A 'big' deal

## Private investments are poised for long-term growth in India

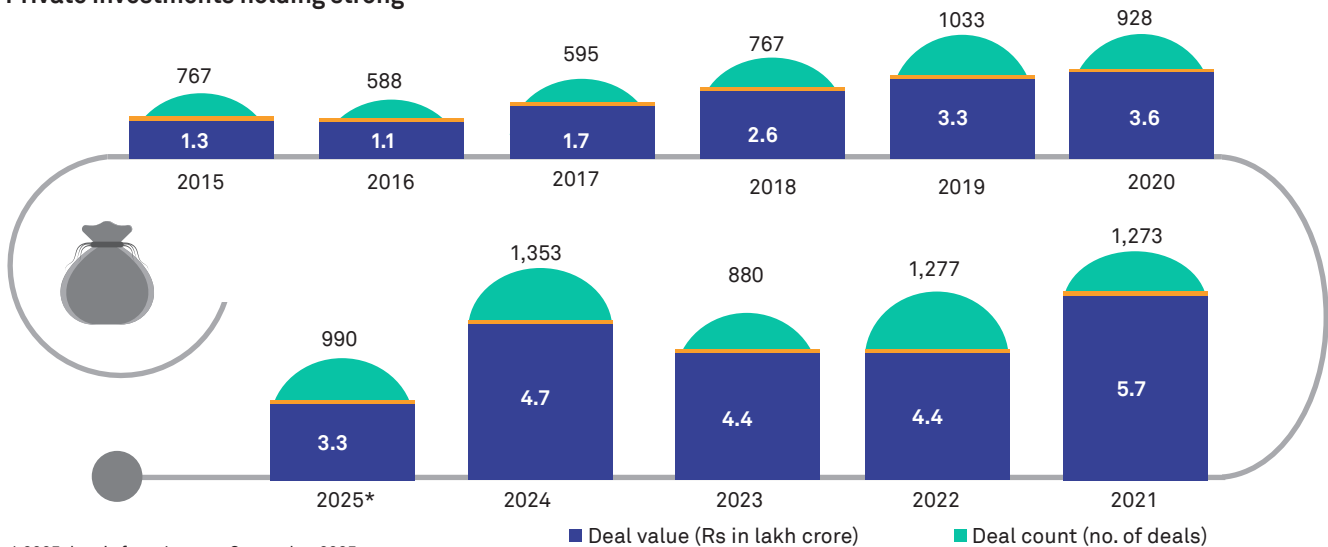
The private investment market in India remains resilient despite a spate of headwinds, riding on consumption-led growth and the government's policies, which are attracting investments and fostering a positive environment for business.

Both deal volume and value surged between calendar years 2015 and 2024. The high point was 2021, with total disclosed value of ~Rs 5.7 lakh crore across 1,273 deals. Thereafter, growth eased due to persistent global headwinds, including high interest rates, moderated consumption and geopolitical uncertainties, which turned investors cautious, leading to a decline in deal value in 2022 even as

deal volume remained stable. In 2023, deal value held steady while in 2024, it grew 6.1% and deal volume by 53.8%.

In the first nine months of 2025, the total value and number of deals remained consistent with the corresponding period of 2024, declining ~5.3% in value and ~4.3% in volume despite the headwinds such as the imposition of higher tariffs by the US, which buffeted global trade and the investment environment, and continuing geopolitical issues. The performance indicates a resistance to further downturn.

### Private investments holding strong



\* 2025 data is from January-September 2025

Notes: 1) Deals with undisclosed values are included in the count but not in value

2) Total deal value includes equity and non-equity investments

3) Average of RBI reference rate for the period have been used for conversion into Rs term

Source: IVCA-EY, Crisil Intelligence

## Credit deals gain interest

Credit investments have been on an upward trend with share in deal value surging to 19.2% in 2024 from 5.3% in 2020. This growth is driven by a surge in deal activity, with the number of deals rising from 74 in 2020 to 310 in 2024, The share of credit investments stands at 17.6% as of the first nine months of 2025.

The surge in private credit activities in India can be primarily attributed to NBFC crisis in late 2018, which resulted in banks and NBFC's becoming more risk averse in lending, and businesses turning to private credit providers to meet their financing needs creating an opportunity for alternative lenders.

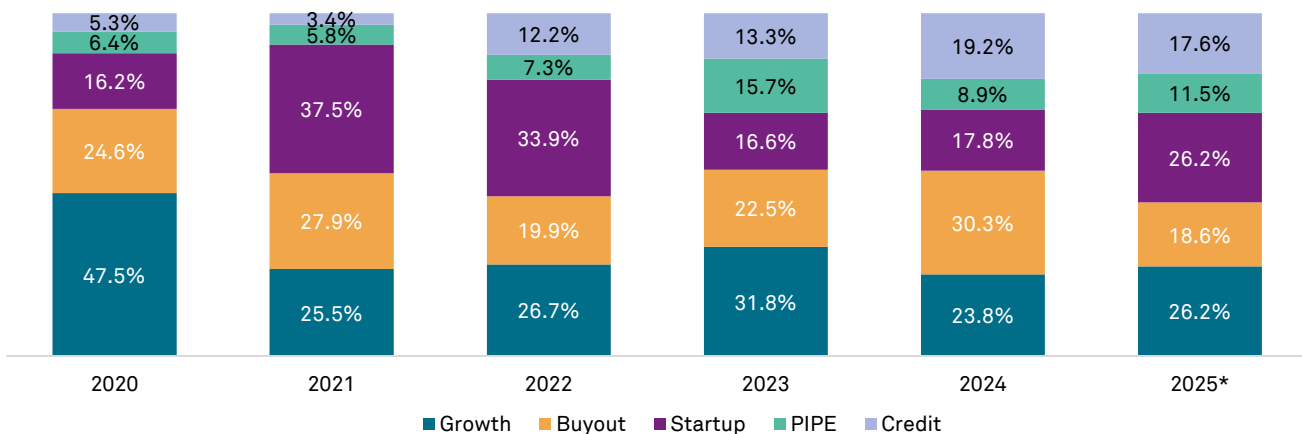
The share of PIPE investments has increased from 6.4% in 2020 to 8.9% in 2024 and stands at 11.5% as on the first nine months of 2025. The share of PIPE investments peaked in 2023 and is showing signs of rebound in 2025.

The share of growth deals has reduced from 47.5% in 2020 to 23.8% in 2024. The share of growth deals

during the first nine months of 2025 is at 26.2% which is higher than the first nine months of 2024 which was at 24.5%. However the deal volume has increased from 116 deals in 2020 to 183 deals in 2024, and 202 deals in the first nine months of 2025. The decline is mainly because of fall in share of large ticket sizes. Established companies typically offer more stability and quicker returns compared to early-stage startups. As the economy evolves, growth investments are expected to play an important role in private markets.

Buyout deals have increased considerably, particularly in 2024, wherein its share touched 30.3% of the total deal value, reflecting growing confidence among investors in acquiring established businesses. Interest in startups deals has stayed robust, with consistent deal count across the years, signifying vibrancy of innovation and entrepreneurship in the country.

### Category-wise trend in deal value



\* 2025 data is from January-September 2025  
PIPE – private investment in public equity  
Source: IVCA-EY, Crisil Intelligence

## Big ticket sizes driving momentum

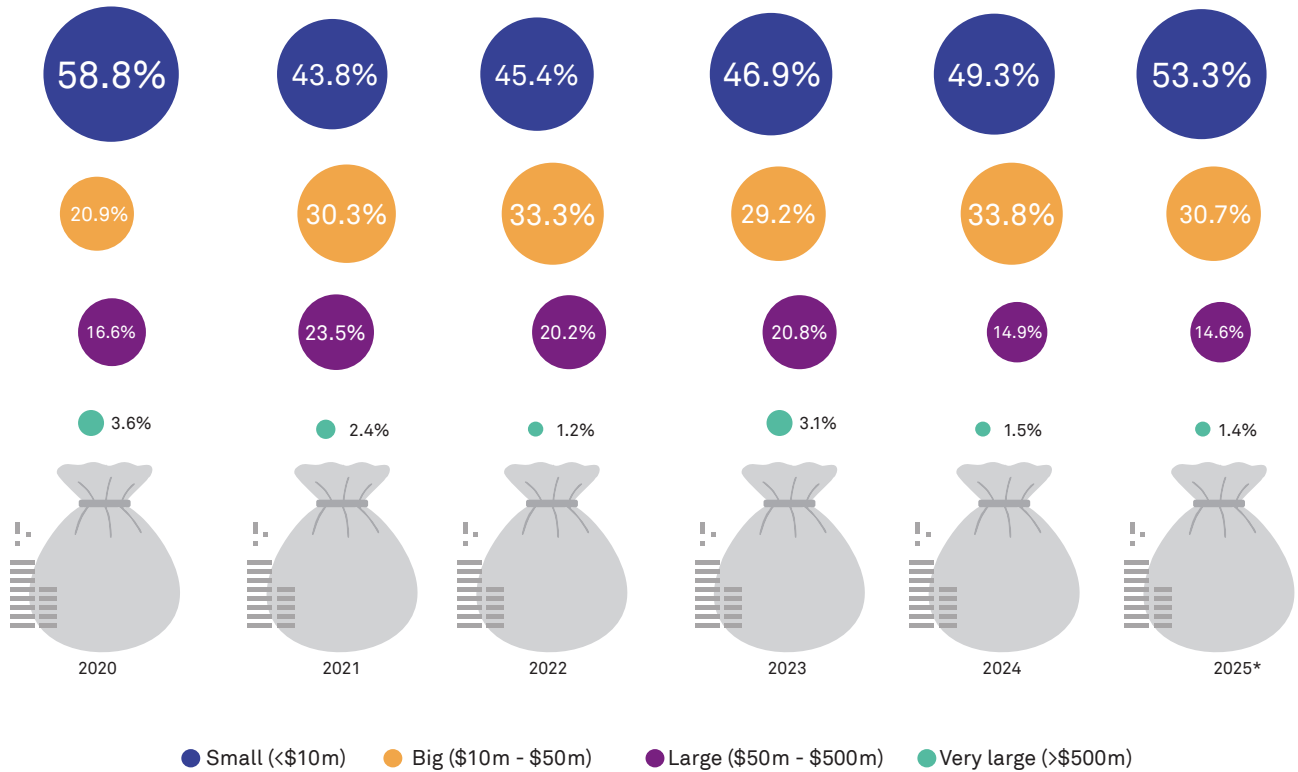
The shift is not only in category but also in the value of the transactions.

Between 2020 and the first nine months of 2025, there were 6,161 private deals with disclosed transaction value. And the proportion of big-ticket deals (in terms of volume) — defined as those ranging from \$10 million to \$50 million—rose to 31% in the first three quarters of 2025 from 21% in

2020. In contrast, the share of smaller deals (under \$10 million) decreased to 53% from 59% over the same period.

As early-stage companies transition into their next growth phase, these are increasingly seeking larger investments, a trend also reflected in the increased uptake of mid-ticket deals.

Annual deal size trends as a percentage of total deals



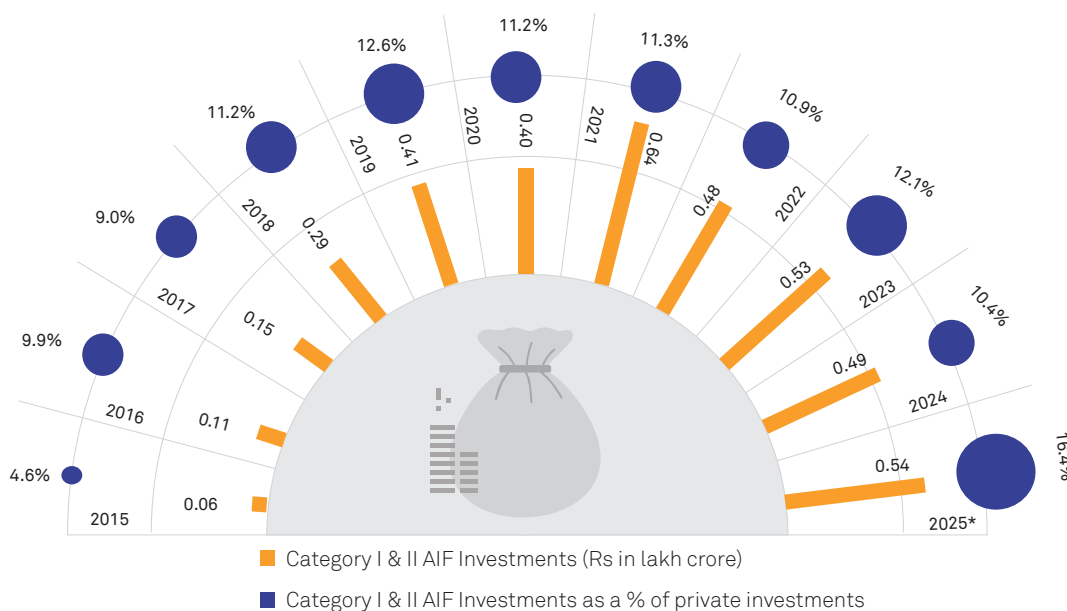
\* 2025 data is from January-September 2025  
Source: IVCA-EY, Crisil Intelligence

# AIF's ascendance transforming private market investment landscape

Investments by Category I and II AIFs as a percentage of total private market investments have shown a consistent upward trend, rising to 16.4% in the first nine months of 2025, up from just 4.6% in 2015. This growth highlights the evolving landscape of private market investments, where AIFs are becoming essential components of the investment

mix. The increasing share of AIFs reflects a broader shift in investor sentiment towards diversified strategies, including private equity, real estate, and hedge funds. Key factors driving this trend include increasing investor awareness, improved risk-return profiles, and a favorable regulatory environment, all contributing to greater participation in AIFs.

AIF Investments as a % of Private market investments



\*2025 data is from January-September 2025  
Source: IVCA-EY, SEBI, Crisil Intelligence

## To summarise

The dynamic landscape of private investments in India offers a multitude of opportunities for DIIs. AIFs are one of the best suited options for DIIs to participate in the private markets in India. With their professional management, diversification benefit and regulatory oversight, AIFs are an indispensable part of the private market landscape. The following section explores this fact further.

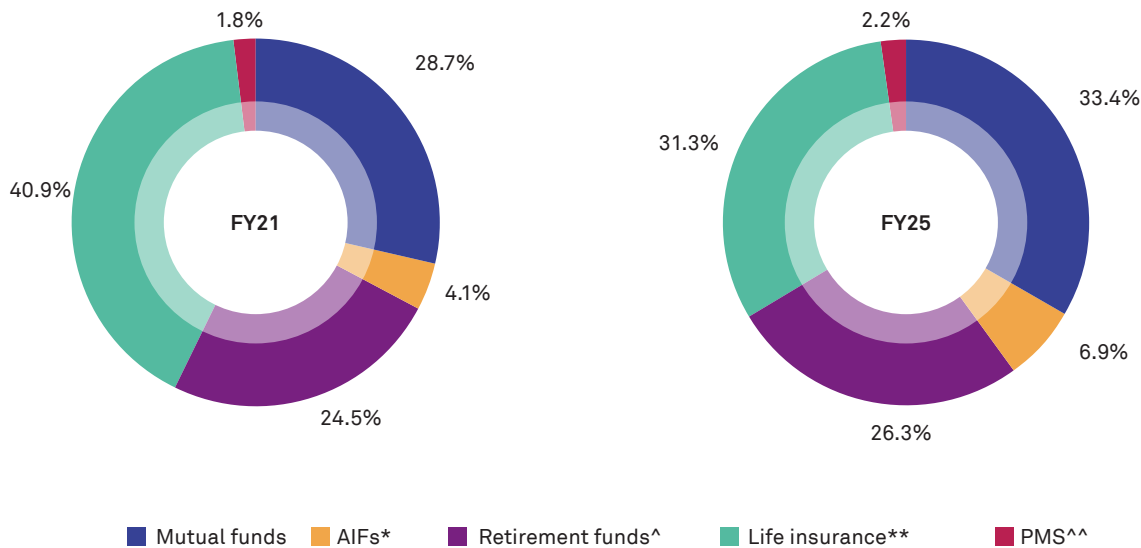
# AIFs integral to private markets

## The fastest-growing managed product in India

AIFs have experienced stupendous growth over the past few years in India as investors seek newer investment avenues to build a diversified portfolio and benefit from the country's robust, all-round growth.

AIFs are privately pooled investment vehicles through which investors can invest in non-traditional asset classes such as venture capital, private equity, private credit, real estate, infrastructure and hedge funds, among others.

### Rising pie of AIF in managed fund industry



Notes: Managed investments AUM as on March 31 of the respective year  
 \*AIF AUM as represented by total commitments raised as on March 31 of the respective year  
 ^Retirement funds AUM include NPS, Exempted PF and EPFO. Latest AUM of exempted PF and EPFO is as on March 31, 2024  
 \*\*Latest AUM of life insurance is as on March 31, 2024  
 ^^Portfolio management services (PMS) exclude EPFO/PF contributions  
 Source: AMFI, SEBI, NPS Trust, EPF India, LI Council, Crisil Intelligence

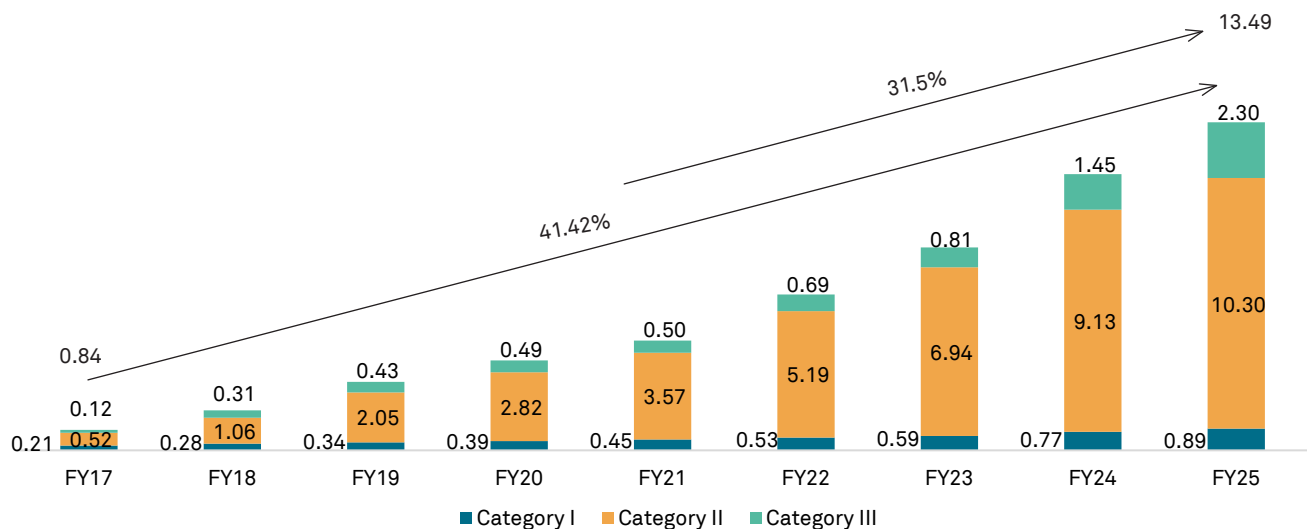
In India, AIFs have emerged as one of the fastest-growing managed<sup>1</sup> investment product segments, logging a compound annual growth rate (CAGR) of 31.5% in terms of total commitments raised between fiscals 2021 and 2025. As of March 2025, the total AIF commitments stood at Rs 13.49 lakh crore.

The share of AIFs in the total assets under management (AUM) of managed investment products increased from 1.4% in March 2017 to

4.1% in March 2021 and 6.9% in March 2025. As on March 31, 2025, the AIF industry contributed (as represented by total commitments) 4.1% to India's gross domestic product<sup>2</sup>.

As of September 30, 2025, there were more than 1,600 AIFs registered with SEBI. Their recent rise in popularity is evident from the fact that about 61% of these were registered in the last four-and-a-half years. Category I and II formed ~76% of the total registered AIFs.

**AIF commitments logged ~31% CAGR between fiscals 2021 and 2025 (Rs in lakh crore)**



Source: SEBI, Crisil Intelligence

Given the increasing wealth in the country and the need for portfolio diversification by some of the largest domestic institutional investors (DIIs), AIFs are expected to remain one of the fastest-growing managed product in the industry.

### Debt funds becoming increasingly popular, equity-focused strategies still lead

Equity-focused strategies dominate the AIF landscape in India. Broadly, venture capital funds

under category I, equity funds purely investing in unlisted securities (equity funds – unlisted), equity funds investing in both listed as well as unlisted categories (equity funds – listed + unlisted) under category II, and long-only and long-short equity funds under category III are the major equity-oriented strategies in India as per the Crisil AIF benchmarks, as of September 2024, these categories formed ~76% of the total valuation of the major strategies.

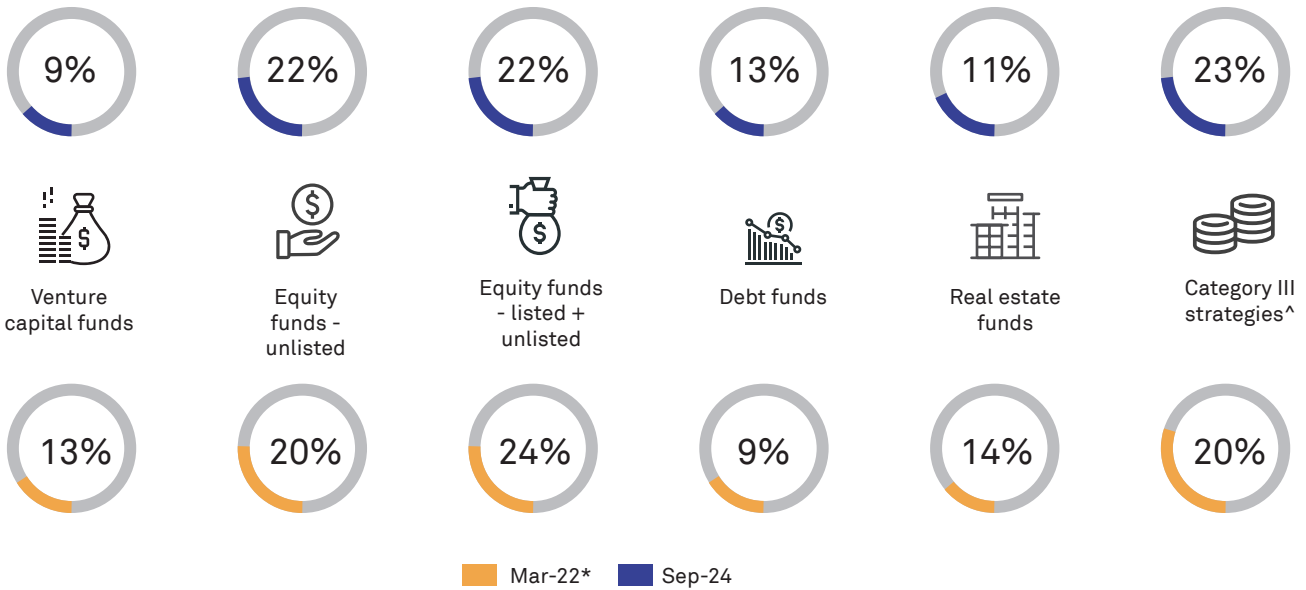
<sup>1</sup> Managed investment products include life insurance, mutual funds, retirement funds (pension funds including NPS and PF), AIFs and PMS (excluding PF and advisory assets)

<sup>2</sup> Based on the Ministry of Statistics and Programme Implementation's (MoSPI) estimates for fiscal 2025

However, debt funds are fast catching up. Their share increased from 9% as of March 2022 to 13% as of September 2024. They have gained a lot of traction, especially after the liquidity crisis in the non-banking financial company (NBFC) sector in

late 2018. As per the Crisil AIF benchmark coverage, more than 50% of the debt funds had their first close between April 2021 and September 2023 showing their recent popularity.

**Share of debt funds valuation on the rise**



Source: Crisil AIF benchmarks, Crisil Intelligence  
 \* Earliest available data  
 ^ Include long-only and long-short equity funds



# AIFs to continue their healthy growth in coming years

The recent popularity of AIFs is expected to continue to rise as high-net-worth individuals (HNIs), ultra-high-net-worth individuals (UHNIs) and institutional investors are increasingly showing interest in non-traditional assets.

Some of the important growth drivers for AIFs are as follows:

## 1. Quest for alpha and diversification

Declining yields of fixed income mutual funds and falling alpha for equity mutual funds have prompted HNIs in the country to explore alternative options. AIFs, meanwhile, outperformed their public market equivalents for most of the timeframes evaluated.

For example, the Venture capital funds benchmark has outperformed the BSE Sensex in all the six half-yearly periods between March 2022 and September 2024. Similarly, the benchmark for debt AIFs has outperformed the Crisil Composite Bond Fund Index in all the

above periods.

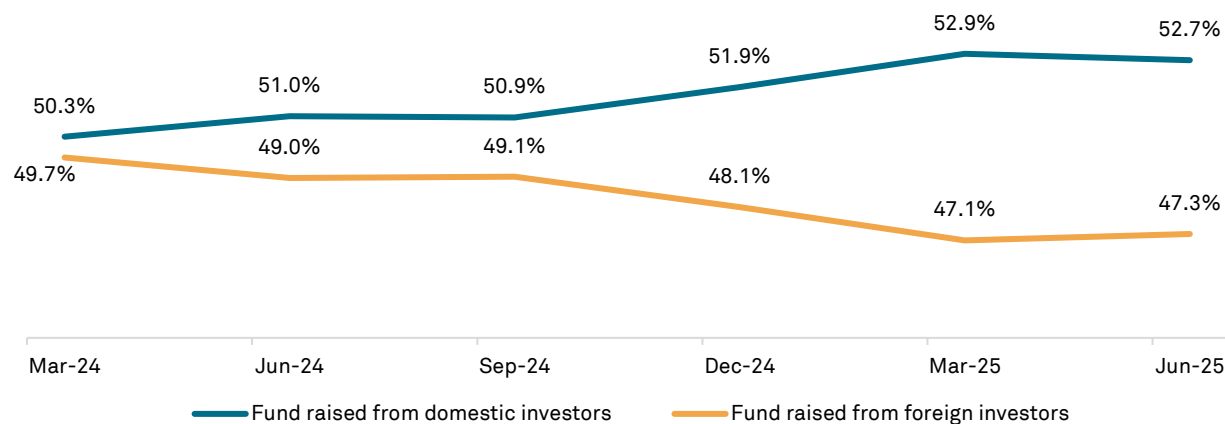
The number of HNIs and family offices in India has grown of late because of the country's economic buoyancy and the robust performance of the capital markets.

These investors are seeking to diversify their portfolios beyond traditional assets, driving demand for alternative investment options. AIFs are emerging as a natural choice as they offer portfolio diversification by opening up opportunity to invest in India's private markets and start-up ecosystem.

## 2. Domestic institutions to play a vital role

Data from the SEBI shows the share of domestic investors as a percentage of gross funds raised across category I and II AIFs has increased from 50.3% to 52.7% between March 2024 and June 2025, resulting in incremental funds raised of ~Rs 72,667 crore by domestic investors.

Funds raised from foreign and domestic investors



Notes: 1) Based on gross funds raised as on June 30, 2025

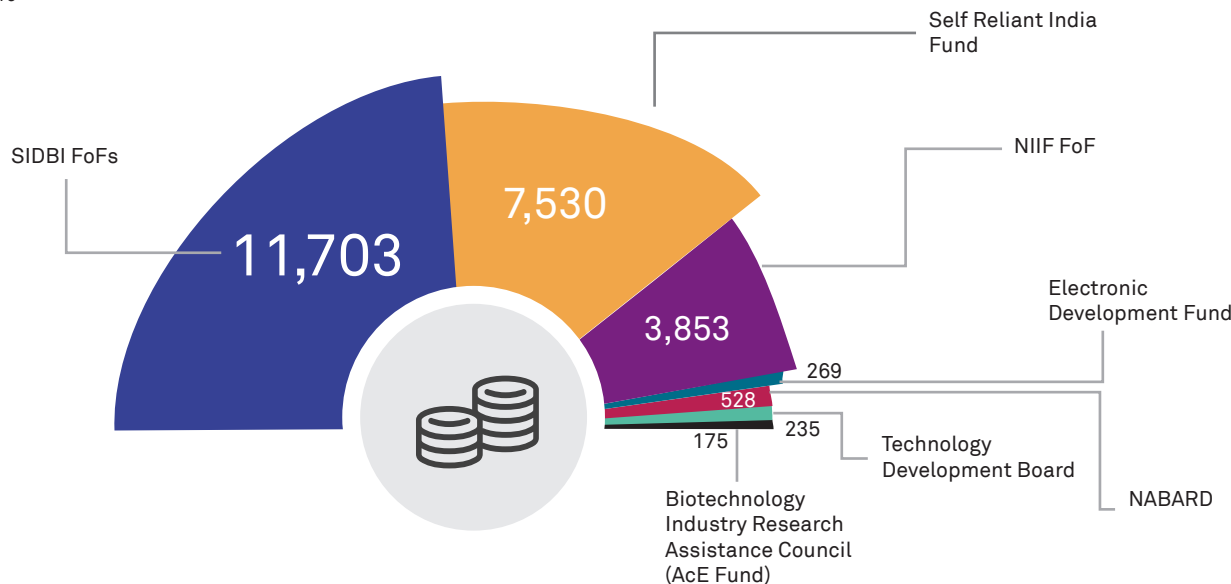
2) Funds raised from employees, sponsors, managers and Employee benefit trust data are not included

3) Foreign investors include foreign portfolio investors, foreign venture capital investors, non-resident Indians and others

Source: SEBI

**Domestic institutional investors, backed by government bodies, have committed Rs 24,293 crore to various AIFs**

Rs Crore



Source: IVCA

Family offices, high and ultra-high net worth individuals (HNIs and UHNIs), banks and government institutions have been the major domestic sources of investments in AIFs in India so far.

The Government of India, through various ministries and departments, has played an important role in giving impetus to the AIF ecosystem. Initiatives such as the introduction of the SIDBI Fund of Funds for Startups (FFS) has helped channel sovereign capital into strategic areas and sectors. Other such funds include the Self-Reliant India Fund (Ministry of Micro, Small and Medium Enterprises), the Electronic Development Fund (Ministry of Electronics and Information Technology), the Technology Development Board (Ministry of Science and Technology). Government-backed bodies have, in total, committed over Rs 24,000 crore to various AIFs. The Union Budget for fiscal 2025 introduced a Rs 1,000 crore fund dedicated for India's space economy, showing the government's focus on

strategic technology sectors, which is another positive for the AIF ecosystem.

Research Development and Innovation Fund (RDIF) is a flagship initiative under the Department of Science and Technology (DST), Government of India. It will support private sector enterprises, startups, and industries working in sunrise and strategic sectors to transform ideas into globally competitive technologies and products. Approved by the Union Cabinet on July 1, 2025, the Research, Development and Innovation (RDI) Scheme aims to catalyse private sector investment in R&D with a total outlay of Rs 1 lakh crore over six years, including Rs 20,000 crore in fiscal 2025-26.

Additionally, the Employees' Provident Fund Organisation (EPFO; the country's largest retirement fund) and the National Pension System (NPS), which have historically preferred fixed-income securities, have not yet started their AIF investment journey. Insurance companies, on the other hand, have already

started investing in AIFs. However, it has remained well below the permissible investment limits.

This shows that there is significant potential for increased flows into AIFs from these large DIIs as they continue evaluating diversification opportunities

### 3. Improving investment and exit opportunities

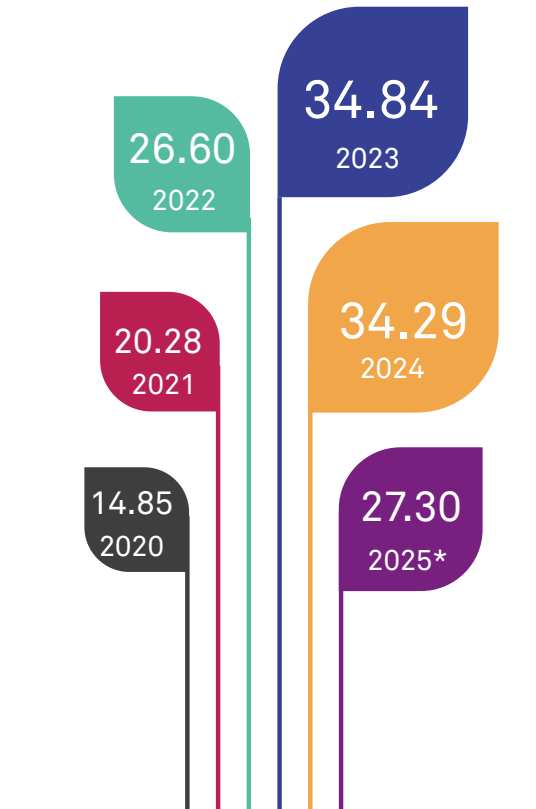
India has emerged as a global economic leader, with its startup ecosystem playing a pivotal role in driving growth and innovation. As of July 31, 2025, the Department for Promotion of Industry and Internal Trade (DPIIT) has recognized over 1.85 lakh startups, cementing the country's position as the world's third-largest startup ecosystem. According to DPIIT data, the number of startups has grown at a compounded annual growth rate (CAGR) of 38.4% between December 31, 2020 and July 31, 2025. This rapid expansion has generated over 1.7 million<sup>3</sup> direct jobs across various sectors, making a significant contribution to employment generation in the country.

Powered by more than 100 unicorns, India's vibrant startup ecosystem continues to redefine entrepreneurship and innovation on a global scale.

The growth in the number of startups has created ample investment opportunities for AIFs. It created a pool of potential investment opportunities for venture capital funds and early-stage funds. Additionally, as these startups mature and the ecosystem expands further, demand for growth-stage, late-stage

### Growing no. of startups create a healthy supply of investment opportunities for AIFs

No of startups year on year (in'000s)



\*Data for 2025 is up to July 31  
 Source: DPIIT

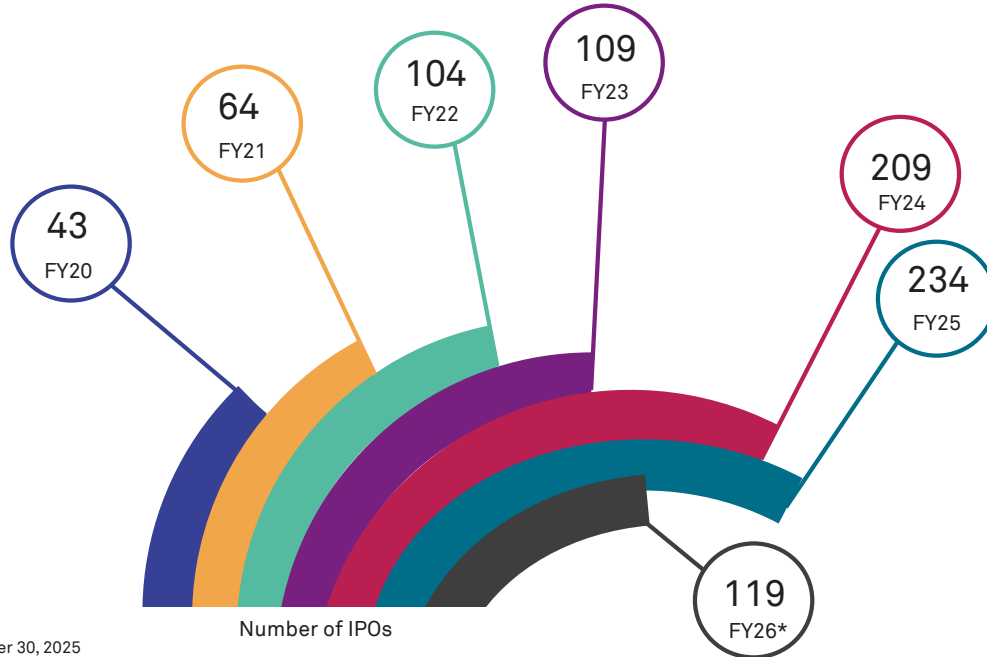
and pre-IPO stage funds is expected to rise, benefitting AIFs focused on these strategies.

Over the last three fiscals, IPO activity has increased, with 552<sup>4</sup> listings as of fiscal 2025. In fiscal 2026, 119 companies launched IPOs by September 30, 2025. The surge reflects strong confidence in India's capital markets and provides vital exit opportunities for private investors, enhancing liquidity. Improved liquidity, in turn, attracts more investors and fuels further growth in the AIF industry.

<sup>3</sup> DPIIT factbook – January 2025

<sup>4</sup> IPO count comprises equity and small and medium enterprises (SME) segment for which data on date of listing was available

Indian capital market has seen an IPO every day, on average, in the last two fiscals



\* Data up to September 30, 2025  
Note - IPO count includes security type Equity and SME based on date of listing  
Source: NSE, Crisil Intelligence

#### 4. Supportive regulatory framework

In recent years, the SEBI updated the regulatory framework for AIFs to enhance transparency, bring standardisation and investor protection. IVCA, as the industry body, has supported the growth of the industry by engaging with the regulator and presenting views, expectations and challenges. Some of the key regulatory measures taken by the regulator with the support of IVCA include:

- Standardising the private placement memorandum (PPM) audit reports and online submissions of the same
- Modifying valuation norms following international private equity and venture capital valuation guidelines to increase standardisation
- Mandatory NISM certification for key investment personnel to ensure competency standards
- Introduction of co-investment schemes for category I and II AIFs with appropriate ring-fencing to enhance flexibility and transparency for large institutional investors
- Dematerialisation of units for enhanced transparency and improved settlement process
- Due diligence framework to prevent evergreening of exposures and improve regulatory compliance
- Reduction on threshold for large value funds from Rs 70 crore to Rs 25 crore for accredited investors
- Complementing these reforms, the Reserve Bank of India (RBI) has allowed up to 5% investments in AIFs without provisioning requirements



**Governance**



**Transparency**

- 2012 • Introduced SEBI (Alternative Investments Funds) Regulations 2012 in May
- 2013 • Introduced a risk management framework for category III AIFs
- 2013 • Efforts by IVCA helped secure taxation pass-through for Category I and II AIFs
- 2018 • Introduced guidelines for AIFs with respect to operation in IFSC, including requirements, conditions, and restrictions.
- 2020 • Mandated performance benchmarking for AIFs  
 • SEBI introduced templates for PPMs and mandated annual audits for the same  
 • Established accountability of the investment committee for AIF's investment decisions
- 2021 • Mandated filing of PPMs through a SEBI registered merchant banker
- 2022 • Introduced guidelines for large value funds for accredited investors  
 • Stated that co-investment by investors of AIFs to be through a co-investment portfolio manager as specified under SEBI (PMS) Regulation 2020
- 2023 • Standardised approach to valuation of investment portfolio of AIFs  
 • Established responsibility of the investment manager for true and fair valuation of the AIF investments.
- 2024 • Introduction to specific due diligence with respect to the AIF's investors and investments, to prevent evergreening of loans
- 2025 • Revised regulatory framework for angel funds under AIF regulations

- 2013 • Introduced periodic reporting by AIFs to SEBI  
 • Introduced calculation of exposures and NAV, obligation of AIF and custodian in case limits were breached
- 2014 • Mandated that fees, charges, and litigation be disclosed in the PPM for enhanced transparency.
- 2017 • Enhanced reporting format for category III AIFs to capture investments in commodities
- 2020 • Enhanced and standardised disclosure norms for AIFs to improve transparency
- 2020 • Introducing an investor charter to provide relevant information to investors
- 2023 • Dematerialised units in all AIF schemes in a specified time frame



### Investor protection



### Others (market access, ease of doing business etc)

2014	<ul style="list-style-type: none"> <li>Mandated preparation and submission of a compliance test report to strengthen regulatory oversight</li> </ul>	2015	<ul style="list-style-type: none"> <li>Released guidelines on overseas investment by AIFs/VCFs to enable more investment options for AIFs.</li> </ul>
2017	<ul style="list-style-type: none"> <li>Introduced an online system for AIF registration, reporting and filing</li> </ul>	2016	<ul style="list-style-type: none"> <li>The government established the FFS, managed by SIDBI, to help channel sovereign capital for the start-up ecosystem</li> <li>Government anchored the National Investment and Infrastructure Fund to help investment in the infrastructure sector.</li> <li>PFRDA, IRDAI, and RBI issued investment guidelines for capital allocation to AIFs, which paved the way for DII participation.</li> </ul>
2021	<ul style="list-style-type: none"> <li>Change of KMPs to be disclosed to investors and SEBI</li> <li>Maintaining data on investor complaints in the specified format.</li> </ul>	2021	<ul style="list-style-type: none"> <li>Introduced framework for AIFs to invest in the units of other AIFs to widen the investor pool</li> <li>Introduced a new class of investors, i.e., accredited investors</li> </ul>
2022	<ul style="list-style-type: none"> <li>Standardised operational aspects such as first close, calculation of tenure, fees, commitment made by manager/sponsor or change in manager/sponsor</li> <li>Appointment of compliance officer made mandatory to bring AIFs at par with other investment products</li> <li>Discontinued priority distribution model to bring all investors on an equal footing</li> </ul>	2022	<ul style="list-style-type: none"> <li>Eliminated the need for an Indian connection for overseas investment to expand the scope of opportunities</li> </ul>
2023	<ul style="list-style-type: none"> <li>Introduced a direct plan for AIF schemes and trail model for distribution commission in AIFs</li> </ul>	2024	<ul style="list-style-type: none"> <li>Relaxations given for submission of certain data through merchant bankers thus facilitating ease of doing business</li> <li>Introduction of a government-sponsored Rs 1,000 crore venture capital fund for India's space economy</li> </ul>
2024	<ul style="list-style-type: none"> <li>Capital gains tax alignment for investments in listed and unlisted securities</li> <li>Abolition of the Angel Tax</li> </ul>	2025	<ul style="list-style-type: none"> <li>Allowed category I and II AIFs to offer co-investment opportunities to accredited investors via dedicated co-investment vehicle (CIV) schemes within the AIF structure.</li> <li>Multiple government-backed fund of funds announced - Rs 10,000 crore FFS; Rs 15,000 crore Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund II to accelerate affordable housing; Deep Tech Fund of Funds targeting strategic sectors such as artificial intelligence (AI), quantum computing and biotechnology</li> </ul>

## Alternative investment – capable of transforming companies

Several alternative investment strategies focus on companies that are still small and have yet to realise their full potential. Some AIFs invest as early as seed stage, when the company's product or service is still in the ideation phase. In addition to providing much-needed capital, these funds help transform small startups into established institutions by

acquiring talent, setting up governance frameworks, expanding client bases, improving operational efficiency and exploring new markets. In doing so, both the funds and their investors benefit, while the investee companies emerge stronger and better positioned for growth.

The following case study<sup>5</sup> gives a better understating of the same.

### Case study: Miko robotics

Miko, an advanced robotics startup founded by alumni of the Indian Institute of Technology (IIT), Bombay, emerged from a vision to revolutionise children's learning by creating an engaging and emotionally enriching experience.

Recognising a gap in traditional education tools, the founders sought to develop an interactive artificial intelligence-enabled companion robot capable of supporting children's emotional and educational growth.

Miko integrates emotional intelligence, advanced sensors and conversational artificial intelligence to create personalised learning experiences that resonate with children.

Crucial to Miko's transformation was the support from domestic venture capitalists (VC), which provided essential risk capital for experimentation and prototype development. This funding not only allowed Miko to hire top engineering talent but also helped it optimise its hardware-software integration.

Additionally, domestic VCs offered strategic guidance, which aided partnerships with global content leaders such as Netflix and Disney, and shaped Miko's product-market fit and go-to-market strategies.

With a solid domestic foundation, Miko successfully attracted foreign investors, accelerating its international expansion. The domestic VC ecosystem was instrumental in providing access to distribution channels and operational support in key global markets, including the US, Europe and the Middle East.

Today, Miko's learning robots are available through major retailers and e-commerce platforms, such as Walmart and Amazon.

<sup>5</sup> Based on inputs shared by IvyCap Ventures

Miko's journey illustrates how domestic VC funding can drive innovation in India, transforming it into a compelling 'India to the world' narrative. It showcases that homegrown technology, when supported by the right ecosystem, can gain global trust, achieve international scale and attract investment from across the world.

## To summarise

AIFs in India have seen remarkable growth, with a compound annual growth rate (CAGR) of 31.5% between fiscals 2021 and 2025. They have become a significant part of the managed investment product landscape. AIFs in India offer a diversified product suite with growing number of debt funds.

The growth is driven by HNIs seeking diversification, increased domestic institutional participation, improving investment opportunities due to a booming startup ecosystem, and a supportive regulatory framework. With over 1,600 AIFs registered with SEBI, the sector is poised for continued expansion as high-net-worth individuals and institutions increasingly explore non-traditional assets.

The next section explores how DIIs can benefit from investing in AIFs.

# Tapping the AIF opportunity

AIFs, with their immense growth potential as an investment product and capability to transform businesses, provide benefits such as diversification from traditional assets and long-term alpha generation to DIIs. Additionally, debt-focused strategies also give intermittent income payouts, which help investors manage liquidity. These

benefits present a potentially lucrative option for domestic investors, provided they exercise discretion while selecting them.

The following section focuses on some of the benefits of investing in this fast-growing managed product i.e. AIFs.

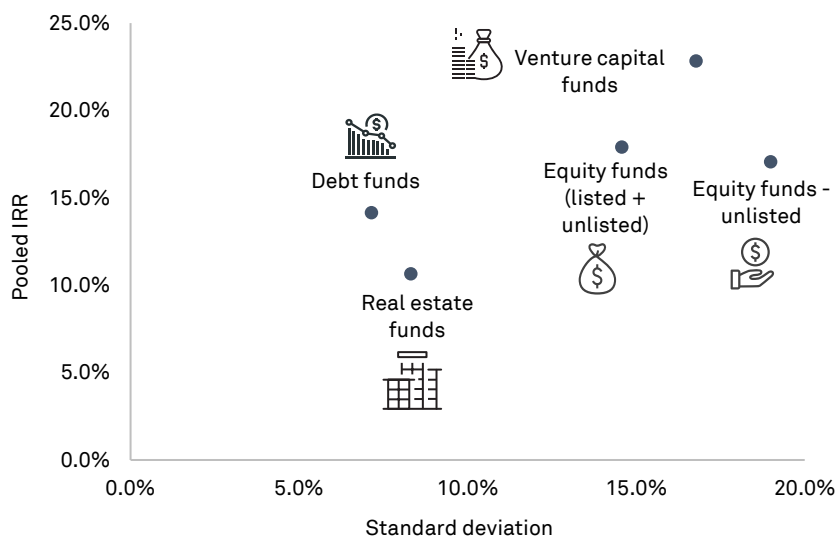
## AIFs offer strategies across risk return spectrum

Contrary to the notion that private equity (PE) and venture capital (VC) are the major investment alternatives, AIFs offer strategies across the risk-return spectrum.

A comparison of pooled returns<sup>6</sup> across major strategies shows that on an aggregate basis, extended internal rate of return (XIRR) from VC funds were the highest at 22.9%, followed by equity funds that invested in listed and unlisted securities at 17.9%, as of September 2024.

The risk quotient with venture capital funds is inherently higher as they take direct equity exposure to start-ups and unlisted entities, generally for

AIFs offer strategies across risk and return profiles (%)



As of September 2024, Crisil AIF benchmarks

Note: 1) Returns since inception - Venture capital funds (fiscal 2013), equity funds - unlisted (fiscal 2015), equity funds - listed + unlisted (fiscal 2014), debt funds (fiscal 2014) and real estate funds (fiscal 2014)

2) Returns are on a post-expenses, pre-carry and pre-tax basis

3) Standard deviation represents the deviation of returns across the funds within a sub-category. Values

beyond 3 sigma on both sides of the mean have been removed for calculation of standard deviation and returns

Source: Crisil Intelligence

<sup>6</sup>To analyse the performance of various strategies, cash flow and valuations of funds falling across vintage years in each of these strategies were aggregated to arrive at a pooled XIRR number. The returns computed herein are based on data shared by the respective AIF and based on post-expense, pre-tax and pre-carry numbers. Taxation and carry details can be different across funds and sub-categories.

a long term of 7-10 years and even longer in some cases.

The debt fund category, on the other hand, had an XIRR of 14.1%, while the real estate fund category, where most funds are debt-oriented, had an XIRR of 10.7%, as of September 2024.

Debt AIFs have a higher frequency of income distribution, given the nature of their investments.

Some real estate funds invest in under-construction residential projects, while others opt for commercial leased-out properties. Hence, based on their objective, they see varied returns.

An investor must analyse the risks associated with each of these strategies and make an informed decision, considering the unique characteristics and risks associated with each AIF category.

## Potential long-term alpha generators, suited for investors with patient capital

The inherent long-term nature of the AIFs bodes well for the type of investments they make, especially equity-focused strategies. The longer tenure of these funds is well suited for domestic investors who have a long-term investment strategy and patient capital.

The longer tenure of AIFs benefit investors seeking to ride out market fluctuations and realise the full potential of their investments. Additionally, many equity-focused strategies invest in companies that are in their early stages of growth and play an active role in giving strategic guidance and support to the portfolio companies to access newer clientele and improve their efficiency thus leading to value creation over the longer term.

To analyse the long-term performance of AIFs, pooled IRRs of the AIF strategies were compared

with the public market indices. This was done using the public market equivalent (PME+) method, whereby the AIF benchmark's cash flow was replicated to a public market index to measure potential returns if the same amount was invested in the public market index.

The analysis shows, venture capital funds registered under Category I AIFs outperformed the BSE Sensex in each of the past six benchmarking cycles, with the maximum alpha of 21.7% during the September 2022 benchmarking cycle and an average alpha of 15.08%.

Similarly, equity funds - listed + unlisted sub-category registered under Category II AIFs outperformed the BSE Sensex in all the six half-yearly benchmarking cycles, with an average alpha of 5.5%.

Benchmarking cycle	Venture Capital funds		Equity funds - listed + unlisted		Equity funds - unlisted	
	Pooled IRR	BSE Sensex	Pooled IRR	BSE Sensex	Pooled IRR	BSE Sensex
Mar 2022	37.3%	16.7%	24.9%	16.1%	26.3%	18.7%
Sep 2022	34.9%	13.2%	24.0%	13.4%	25.3%	14.3%
Mar 2023	31.7%	11.9%	19.0%	12.4%	21.7%	12.4%
Sep 2023	27.1%	14.2%	18.2%	14.2%	23.8%	14.8%
Mar 2024	25.7%	15.7%	17.7%	15.5%	17.6%	16.5%
Sep 2024	22.9%	17.4%	17.9%	17.1%	17.1%	19.6%

As of September 2024, Crisil AIF benchmarks

Note: 1) Returns since inception - Venture capital funds (fiscal 2013), equity funds - unlisted (fiscal 2015), equity funds - listed + unlisted (fiscal 2014), debt funds (fiscal 2014) and real estate funds (fiscal 2014)

2) Returns are on a post-expenses, pre-carry and pre-tax basis

Source: Crisil Intelligence

## Diversification avenue

Benjamin Graham, the father of value investing, had termed diversification “an established tenet of conservative investment” and said the principle had a close logical connection with the concept of safety margin.

AIFs offer possibilities for diversification as they give investors access to a broad range of assets, including equity and debt investments in unlisted companies and start-ups, which may not be possible through traditional offerings.

Additionally, thematic AIFs focusing on sectors such as technology, healthcare and renewable energy help investors gain access to these innovative and high-growth sectors, helping them diversifying their portfolios while capitalising on emerging industry trends for enhanced returns.

AIFs can also offer investors the opportunity to invest in companies that are at various stages of their growth cycle, including early, growth, late and the pre-IPO stages. This flexibility allows investors to target specific strategies, based on their investment focus.

Furthermore, AIFs adopt an active investment approach, where fund managers conduct research and due diligence before investing. Certain AIFs also take an active role in developing portfolio companies by partnering with entrepreneurs and management teams, providing guidance and support to drive growth and value creation. This enables the fund managers to enhance value and generate better returns on investments and create a more sustainable and resilient portfolio.

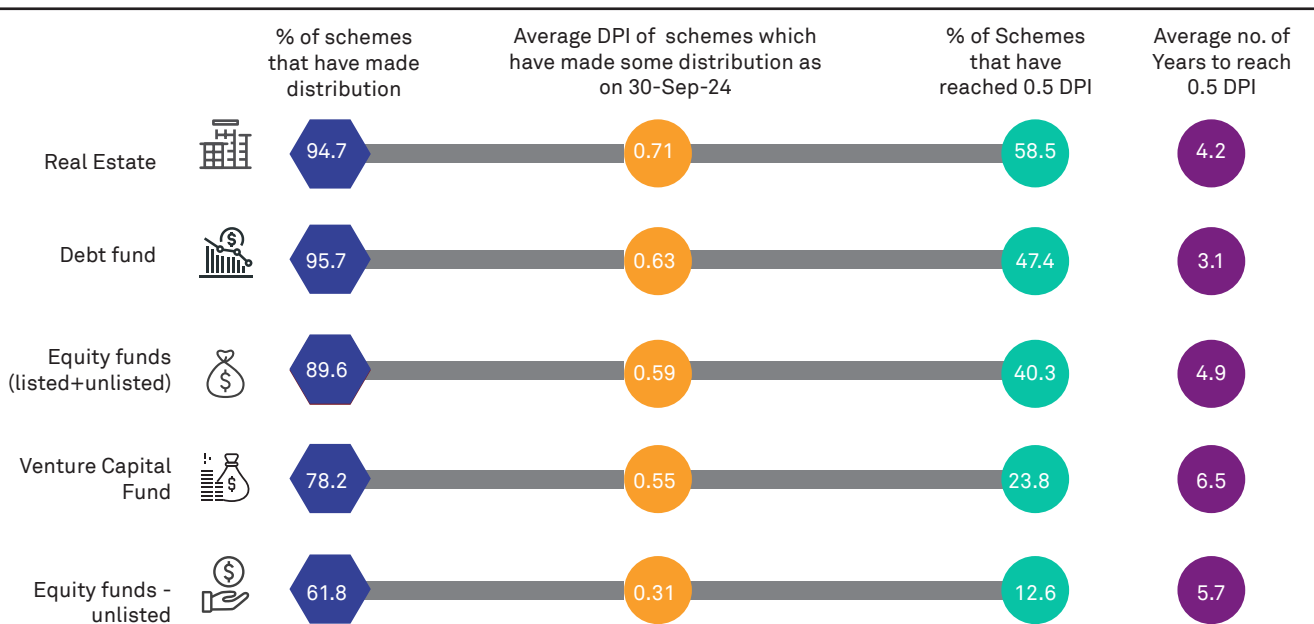
## Debt-focused AIFs make frequent payouts, helping investors manage liquidity



AIFs are generally considered illiquid instruments, offering limited cash pay-out during the fund's tenure. While this holds true for equity-oriented categories, debt and real estate categories present a different picture.

The distribution-to-paid-in-capital (DPI) ratio measures the distributions made by the fund over its lifetime. An analysis of DPI across Category I and II funds shows that 520 out of 644 schemes had made distributions as of September 2024. The table below provides a detailed breakdown of the DPI for various AIF subcategories.

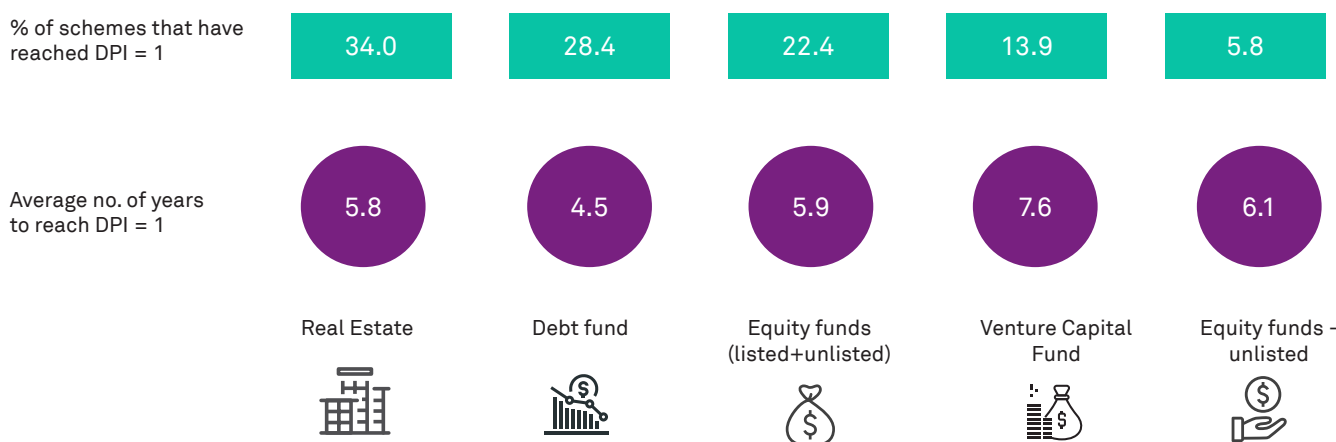
Across the five broad subcategories, about 58.5% of the real estate funds have distributed 50% of their capital as of September 2024, achieving this within an average time of 4.2 years from their first close date. Around 47.4% of debt funds have achieved this, taking the shortest time—3.1 years—from first close date. The debt-oriented nature of investments in both debt and real estate funds enables them to generate cash flows more frequently than equity-oriented funds.



As of September 2024, Crisil AIF benchmarks  
Sub-categories arranged as per descending order of average DPI  
Source: Crisil Intelligence

As of September 2024, 34% of real-estate funds and 28.4% debt funds have fully returned investor

capital, achieving this in 5.8 years and 4.5 years, on average, respectively.



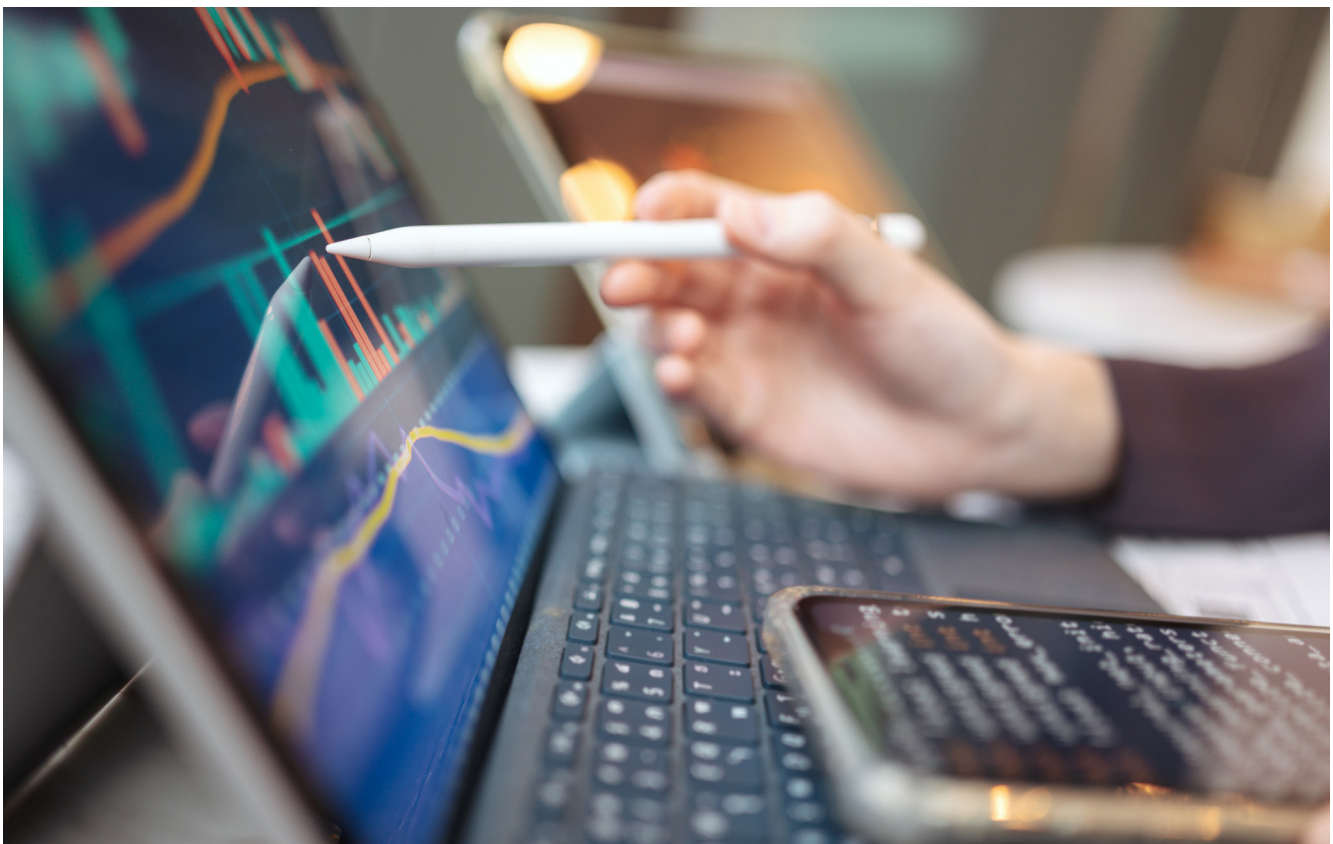
As of September 2024, Crisil AIF benchmarks  
Sub-categories arranged in order of % scheme that have reached DPI of 1  
Source: Crisil Intelligence

## To summarise

1. AIFs offer strategies for long-term investors with patient capital in the form of venture capital funds and private equity funds and also for investors looking at frequent payouts in the form of debt funds and real estate funds.
2. Venture capital funds and other equity strategies have outperformed BSE Sensex PME+ in most of the benchmarking cycles since March 2022, with VCFs having the highest average alpha of 15.1% across periods.
3. Real estate and debt funds lead in distributions with 58.5% and 47.4% of the funds, respectively, already returning 50% of the invested capital. Additionally, these categories have been the fastest to reach a DPI of 0.5 (4.2 years for real estate funds and 3.1 years for debt funds). On average, it took 5.8 years for real estate funds to return 100% of invested capital while 4.5 years for debt funds to achieve the same.

AIFs, with their diverse risk–return profiles, tenures and payment features offer an important avenue for portfolio diversification beyond traditional assets while generating alpha. However, performance can

vary widely across strategies and fund managers, so investors should exercise diligence when selecting AIFs.



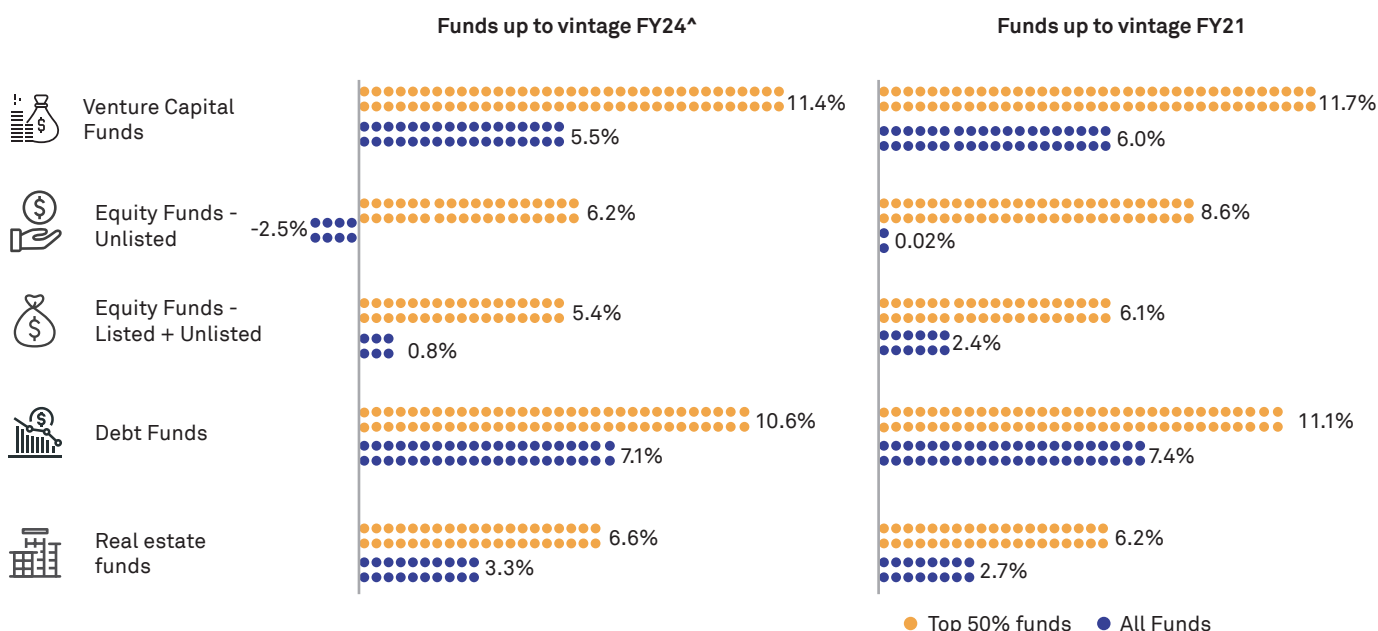
# Fund selection: A critical aspect of investing in AIFs

The process of selecting a fund manager for an AIF involves careful evaluation of investment strategies, time horizon and the risk-reward profile. This decision is especially important as AIF investments are typically long-term and less liquid than public market investments. Moreover, returns can vary across fund managers operating in similar strategies.

An analysis of pooled IRRs of the top 50% funds as of September 2024 shows that all strategies have outperformed the comparable public benchmarks,

i.e. the BSE Sensex and Crisil Composite Bond Fund Index for equity-focused and debt focused subcategories, respectively. However, if we compare the performance of all funds within each of the strategies, the alpha is lower than that of the top 50% funds. Equity-oriented funds typically take two to three years to develop a portfolio, so the performance of newer vintages may not fully reflect overall portfolio performance. Hence a comparison of performance of funds upto vintage year 2021 has also been shown.

## Alpha analysis of top 50% funds and all funds across subcategories



As of September 2024, Crisil AIF benchmarks

Note: 1) Returns since inception - Venture capital funds (fiscal 2013), equity funds - unlisted (fiscal 2015), equity funds - listed + unlisted (fiscal 2014), debt funds (fiscal 2014) and real estate funds (fiscal 2014)

2) Returns are on a post-expenses, pre-carry and pre-tax basis

3) Alpha is measured as the difference between the pooled internal rate of return and PME+ value calculated for BSE Sensex (for venture capital funds and equity funds).

Pooled returns of debt and real estate funds are compared with Crisil Composite Bond Fund Index (50% Gsec and 41% AAA and 9% AA+ & AA)

Top 50% funds are selected from vintage year with minimum four schemes

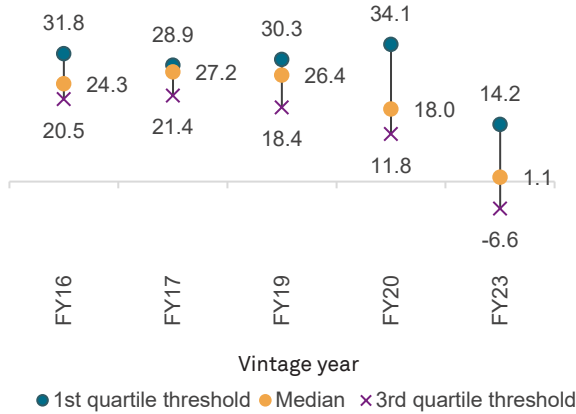
^ Data pertains to the first half of the year, i.e. only those schemes that had their first close between April and September 2023

Source: Crisil Intelligence

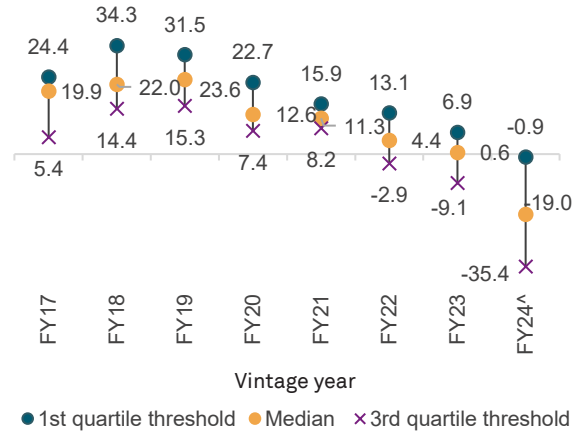
Further, a quartile analysis of returns as of September 2024 across these strategies indicates significant divergence in performance. The return variance is higher among equity-oriented categories compared with debt-oriented ones.

This shows investors need to make a careful selection of funds while investing in AIFs. Also, it is important for them to look beyond just performance numbers.

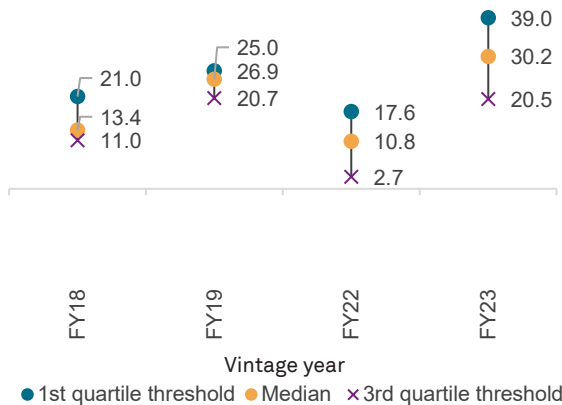
**Venture capital funds**



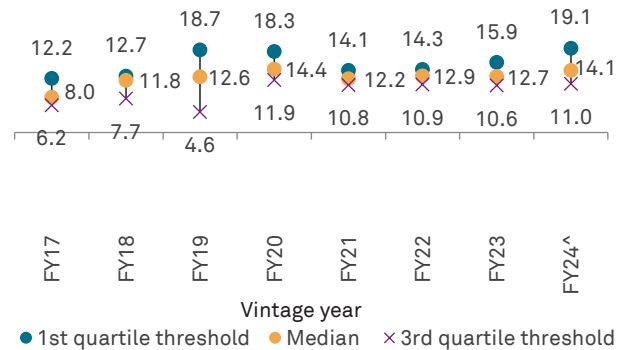
**Equity funds – unlisted**



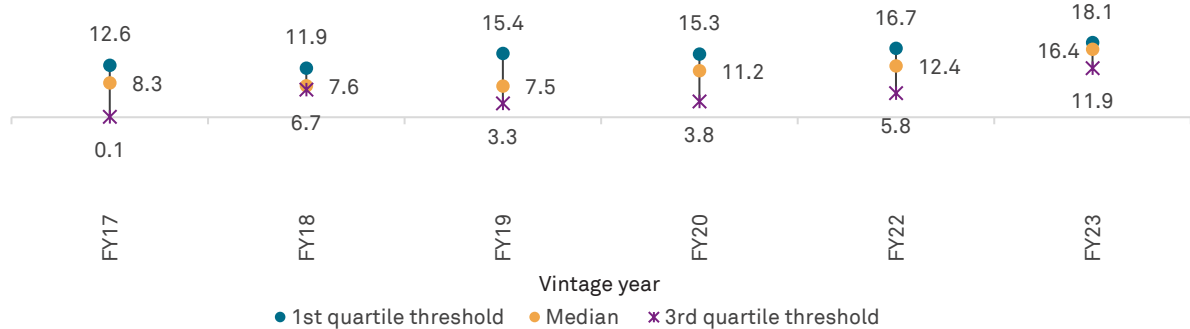
**Equity Funds - Listed + Unlisted**



**Debt Funds**



**Real estate funds**



Note – 1. Data as of September 2024  
 2. First and third quartiles are the return thresholds for the top 25% and 75% schemes, respectively, based on the individual scheme IRRs in each vintage year.  
 3. For quartile analysis, only those vintage years that have at least eight schemes available have been considered  
 ^ Data pertains to the first half of the year, i.e. only those schemes that had their first close between April and September 2023  
 Source: Crisil Intelligence

Conducting thorough due diligence and assessing multiple parameters is essential to making an informed decision. In addition to quantitative factors such as returns, it is very important to look at qualitative factors that help the funds achieve better performance.

Factors like governance, investment decision-making, track record of the investment team and

their stability within the organisation, governance framework, investment committee constituents, disclosure practices, LP engagement and conflict handling mechanism, among others, must be evaluated before selecting an AIF for investment.

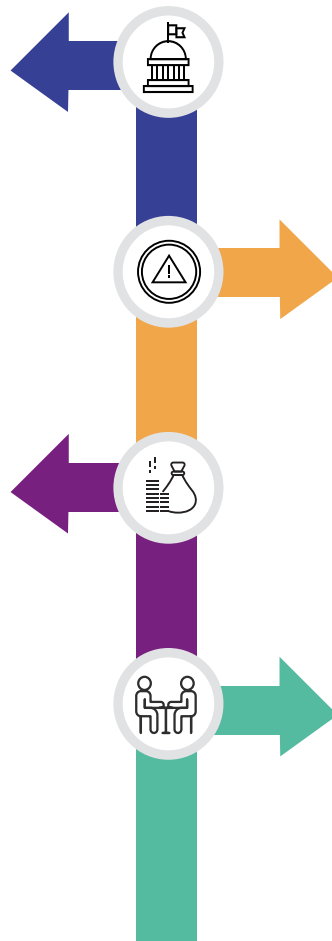
As part of its fund management grading exercise, Crisil typically considers the following qualitative aspects while assessing AIFs:

### Organisation structure and governance

In case of AIFs, especially Category I and II that are closed-ended structures, it is important that the sponsor continues for the fund's entire duration. It is, therefore, critical to evaluate the financial strength of the sponsor and the investment manager to ensure continuity of business. Other important parameters to be scrutinised are overall governance framework, the role played by the senior management in terms of oversight and conflict handling process.

### Investment team

Longer tenure of AIFs makes it vital for the investment team to stay with the fund for the entire tenure of the fund ensuring continuity and accountability. It is, therefore, critical to evaluate the investment team's stability within the entity by evaluating the financial motivations provided by the AIF to their employees. It is also important that the team has relevant experience in making investments according to the fund's strategy and focus sectors.



### Investment and risk process

A well-defined investment process that covers deal-sourcing framework, due diligence mechanism and decision-making architecture, post investment monitoring, makes the approach to investing structured. The role and effectiveness of the investment committee, particularly in assessing risks and mitigants, are key considerations during fund evaluation. The ongoing support offered to portfolio companies and regular performance monitoring are also an integral part of the assessment process.

### Client communication and transparency

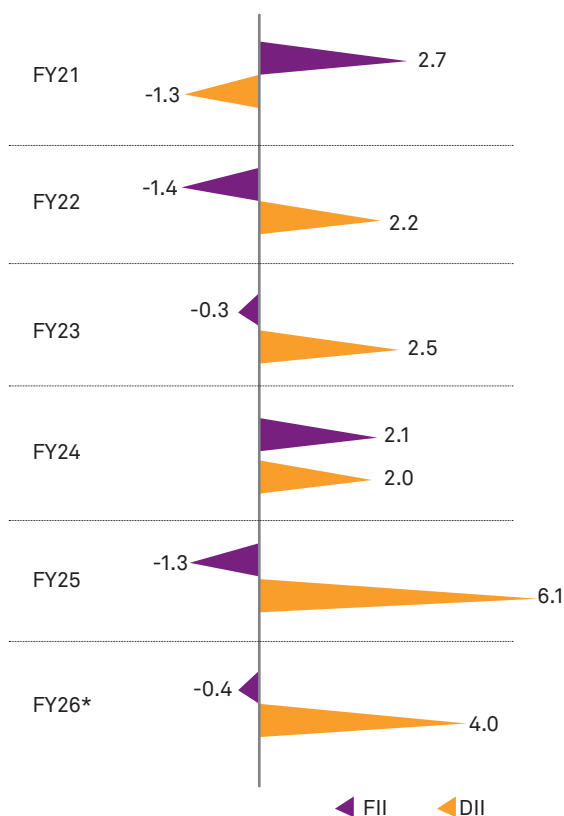
Managing investors' funds is a fiduciary responsibility. Hence, investment managers' disclosure practices are critical. Transparency in communication and an efficient client-engagement framework are key parameters when evaluating an investment manager.

# Domestic capital key to AIF industry growth

Domestic investors are the backbone of the financial system in an economy. Domestic institutional investors (DIIs), such as retirement funds, pension funds, insurance companies, banks, family offices and HNIs/UHNIs, channel capital from long-horizon balance sheets into growth engines of startups and growth-stage companies across sectors and drive capital-efficient investments, supporting innovation, job creation and infrastructure development.

The importance of DIIs can be well understood by looking at the listed equity markets in India. Listed equity markets has demonstrated remarkable resilience in the face of selling pressure from foreign institutional investors (FIIs), thanks to the counterbalancing role of DIIs. Between April 2020 and September 2025, equity investments by FIIs totalled Rs 1.5 lakh crore, while DIIs invested approximately 10 times that amount (Rs 14.3 lakh crore) during the same period, highlighting their role in stabilising the market.

FII vs DII listed equity Investments (Rs in Lakh crore)



\*FY26 data includes data up to September 2025  
Source: National Securities Depository Ltd (NSDL), NSE Market Pulse



DIs can play a similar role for private markets, providing much-needed stability and support to startups and growth-stage companies and reducing dependence on FIIs. In India, DIs have been investing in a prudent and regulated manner, with focus on specific sectors such as infrastructure, startups, small and medium enterprises (SMEs), venture capital funds and social welfare entities.

According to data from the SEBI, funds raised by category I and II AIFs from domestic investors, such as banks, non-banking financial companies (NBFCs), insurance companies, other corporates, resident individuals, family offices, and trusts, increased from 50.3% to 52.7% of the total capital raised between March 2024 and June 2025.

Globally, domestic investors are making higher allocation to alternative assets in their quest for portfolio diversification and higher returns. For example, allocations of State Pension Funds in the US to alternative assets increased from 30-40%<sup>7</sup> between June 2018 and June 2023.

According to the 2023 Fidelity Institutional Investor Study, institutional investors, such as pension funds, insurers, large endowment and foundations in the US put together had an average allocation of 25% to alternative assets.

In India, while insurance companies have allocated a small portion of their portfolio to AIFs, large DIs such as the EPFO and NPS are yet to invest in AIFs. This indicates that there is a substantial scope to deepen domestic participation, especially from large domestic institutions who have historically been cautious about direct exposure to private markets.

This section explores various domestic investors, their governance and regulatory frameworks for investments in AIFs and the challenges in scaling exposure to private market opportunities.

<sup>7</sup> <https://caia.org/blog/2024/08/06/institutional-embrace-alternatives-reaches-40-assets>

## Retirement funds: Patient capital to support AIFs

### EPFO

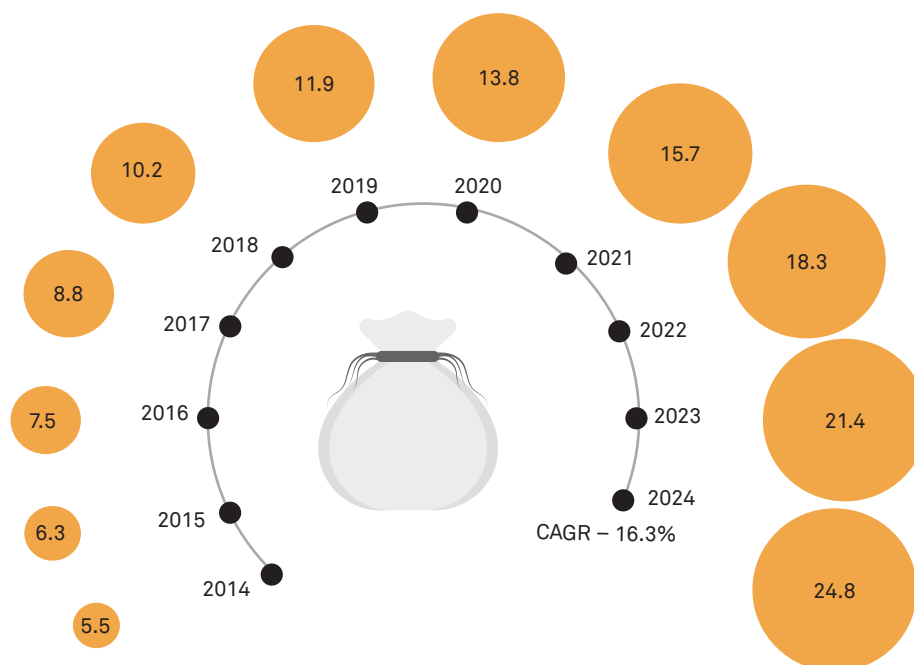
The EPFO, a statutory body established by the Government of India under the Ministry of Labour and Employment (MOL&E), regulates and manages the provident fund (PF) schemes in India and provides social security benefits to employees in the organised sector.

The government's initiative to expand the coverage of individuals in the organised space has resulted in significant increase in the assets under management (AUM) of EPFO. Since investments are held till maturity, the interest income from

investments, along with net fresh fund flow during the year, constitutes growth in AUM. The EPFO's AUM (excluding Exempted PF) has clocked a compound annual growth rate (CAGR) of 16.2% between fiscals 2014 and 2024, with its assets increasing from ~Rs 5.5 lakh crore to ~Rs 24.8 lakh crore during this period.

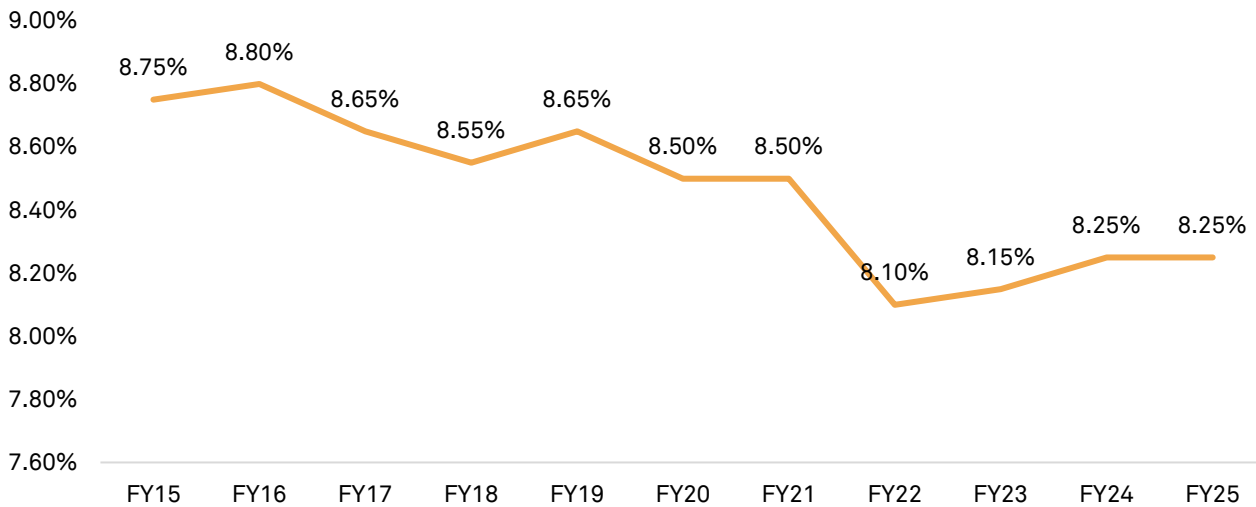
The interest rates declared by the EPFO, which invests a large part of its corpus in fixed income securities, has seen a downward trend in the last decade majorly due to declining interest rates. The EPFO can support this declining rate by making investments in non-traditional assets such as AIFs.

AUM (Rs in lakh crore)



Source: EPFO annual report, Crisil Intelligence

**Declining rate of interest for EPF scheme of EPFO**



Source: EPFO, Crisil Intelligence

EPFO’s investment guidelines allow the organisation to invest up to 5% of its incremental annual investments in alternative assets, including investment in asset/mortgage-backed securities, units of infrastructure investment trusts (InvITs)/ real estate investment trusts (REITs) and category I and II AIFs.

Specifically, EPFO’s investment pattern allows for investment in category I AIFs registered as venture capital funds, infrastructure funds, SME funds and social venture funds and category II AIFs that have at least 51% of investments in either infrastructure entities or SMEs or venture capital or social welfare entities.

Despite being a part of the EPFO’s investment guidelines, as per the latest available data, the EPFO has not made any investment in AIFs.

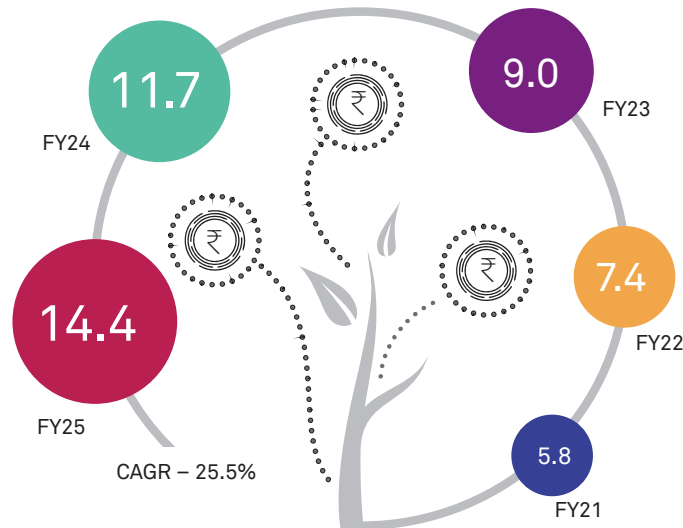
**NPS**

The Pension Fund Regulatory and Development Authority (PFRDA) oversees and manages the NPS under the PFRDA Act, 2013. The central government launched the NPS to assist individuals to have income in the form of pensions to manage their retirement needs.

The overall AUM under NPS has more than doubled between fiscals 2021 and 2025 to ~Rs 14.4 lakh crore. Around 84%<sup>8</sup> of the NPS subscribers were in the 18-40 years age group as of fiscal 2025, indicating a relatively young subscriber base and relatively long pension liabilities.

<sup>8</sup> NPS Annual Report

AUM (Rs in lakh crore)



Source: NPS annual report and NPS website, Crisil Intelligence

At present, NPS has 10 portfolio managers and four asset classes. According to the investment guidelines, investments in AIF can be made only under Scheme A of the all-citizen model, which is limited to only 5% of the total AUM invested by the subscriber. The PFRDA guidelines do not permit investment in AIFs in other schemes.

According to PFRDA guidelines, investments can be made in Category I funds registered as startup funds, infrastructure funds, SME Funds, Venture Capital Funds and Social Venture Capital Funds and those Category II funds which have at least 51% of the funds invested in either of the startup entities, infrastructure entities or SMEs or venture capital or social welfare entities.

Currently, NPS portfolio managers have nil investments in AIF. Some of the challenges for investing in AIFs that the NPS faces are as follows

- SEBI has mandated AIFs to carry out valuations at least once every six months. NPS declares the net asset value (NAV) of schemes daily, while it is difficult to value AIF investments and declare the NAV daily.
- AIFs are closed-ended and have a typical lock-in period of five to 10 years. An all-citizen model allows the subscriber to shift their allocation to

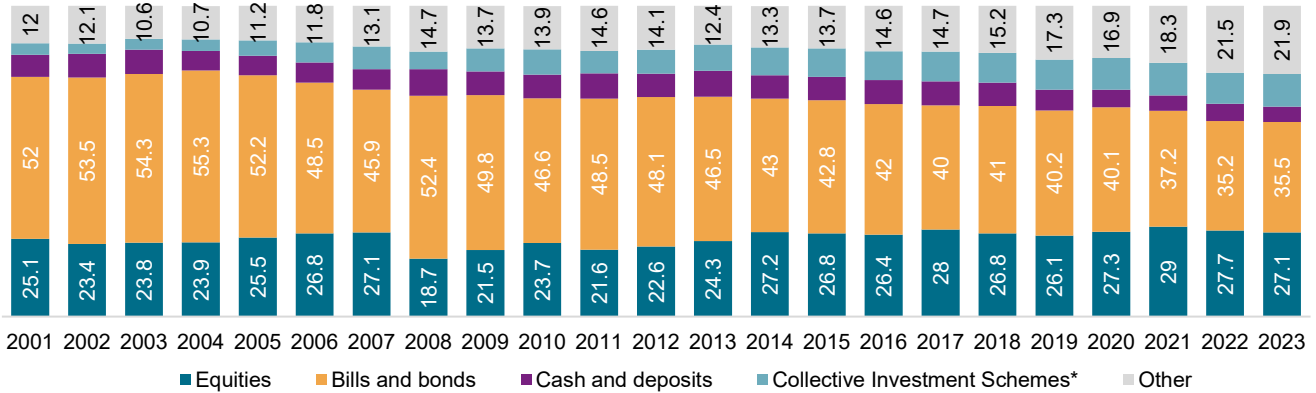
other asset classes. Thus, liquidity is required in the portfolio to honour a subscriber's request for change in allocation or pension fund manager.

- Limited awareness of AIFs as a product also poses challenge to adopt alternatives as an asset class. Additionally inadequate transparency about the product makes it difficult for making an informed investment decision.

### Global pension funds increasing exposure to alternative assets

One of the key emerging global trends in the retirement fund industry is the growing interest in alternative assets. Pension funds have been increasing their exposure to alternative investments as they seek to diversify their portfolios and reduce reliance on traditional assets. According to a report by the Organisation for Economic Co-operation and Development (OECD), the average asset allocation of pension providers in select 15 jurisdictions shows that allocation to other asset classes (which includes private equity funds, hedge funds, structured products, land and buildings, unallocated insurance contracts and other mutual funds) rose to 21.9% in 2023 from 12% in 2001.

**Average asset allocation by pension providers across 15 jurisdictions**

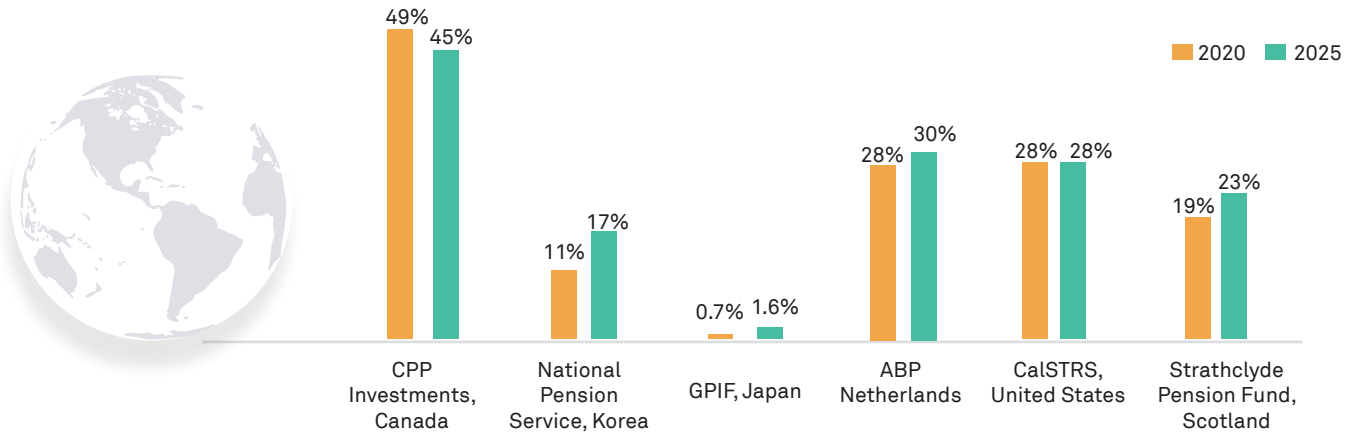


Note: 1. Other includes private equity funds, hedge funds, structured products, land and buildings, unallocated insurance contracts and other mutual funds. \* When look through unavailable  
 2. The average allocations of pension plan assets have been calculated over 15 jurisdictions: Austria, Czechia, Denmark, Germany, Japan, Netherlands, Norway, Poland, Slovenia (from 2003 onwards), Sweden, Türkiye (from 2004 onwards) and the United States among OECD countries; and Bulgaria, Hong Kong (China) (from 2002 onwards) and Peru among other jurisdictions. The whole series of asset allocations in each of these 15 jurisdictions are available in the statistical annex of this publication. The asset allocation of pension plans in 2019 in Korea and in 2011 in Türkiye are OECD estimates based on the data available for the year before and after the missing year.  
 Source: Pension Markets in Focus 2024, OECD, Crisil Intelligence

Another report from the American Investment Council (AIC) states that the US pension funds

invested ~9% of their total portfolio in private equity in 2021, which has now grown to 14% in 2025.

**Increasing allocation to alternative assets – data for select pension funds globally**



Note: CPP Investments data refers to composition by asset class between fiscal 2020 and 2025 and alternatives assets include private equities, real estate and infrastructure. National Pension Service, Korea data is as on December 2020 and 2024. GPIF, Japan data is as of fiscal year 2020 and 2024. ABP Netherlands data is as of Q4 of 2020 and Q1 of 2025 and alternatives includes private equities, commodities, hedge funds, infrastructure and real assets. CalSTRS, United States data is as of June 2020 and June 2025 and alternatives include private equity and real estate investments. Strathclyde Pension Fund, Scotland data is as of March 2020 and March 2025, and alternatives includes private equity and infrastructure investments  
 Source – Annual reports, press releases, Crisil Intelligence

Two of the largest retirement funds in India i.e. EPFO and NPS have a longer liability profile given that the subscriber base is relatively younger. The investments by retirement funds in AIFs can be a win-win for them as well as the AIFs. The long-term nature of the AIFs maps well with the liability

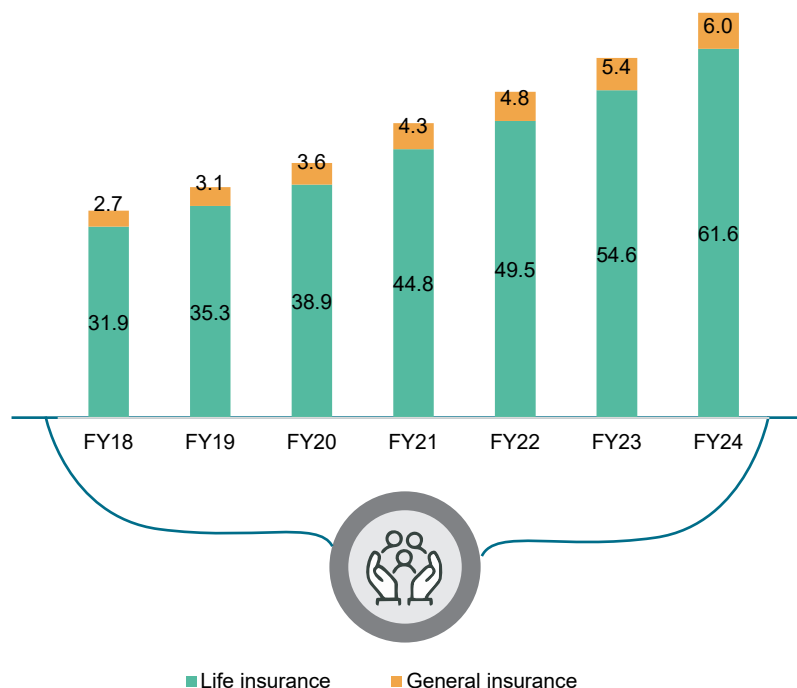
profile of the retirement funds while AIFs gain from the patient capital that these retirement funds will bring. Intermittent payouts made by debt-focused strategies can create liquidity for these funds to meet their regular liabilities.

## Insurance companies: an untapped potential

AUM in the Indian insurance sector logged a CAGR of 11.8% between fiscals 2018 and 2024. A breakdown of the sector's AUM growth reveals that the life insurance segment clocked a CAGR of 11.6%, while general insurance logged 14.3%.

The Insurance Regulatory and Development Authority of India (IRDAI) plays a crucial role in safeguarding the interests of policyholders and promoting an orderly growth of the insurance industry in India. According to the regulations set by the statutory body, insurance companies are subject to specific investment limits in venture funds and AIFs under Category I and II. The overall exposure of life insurance companies is limited to 3% of the respective fund size and up to 5% for general insurance companies.

AUM (Rs in lakh crore)



Source: Insurance Regulatory and Development Authority of India annual report, Crisil Intelligence

Life Insurance Corporation of India (LIC) is the largest life insurer in the country. As per the latest annual report of IRDAI, LIC had a total AUM of Rs 44.23 lakh crore as of fiscal 2024. Thus, AIFs can receive a potential investment of more than Rs 1.3 lakh crore if LIC were to use its entire limit.

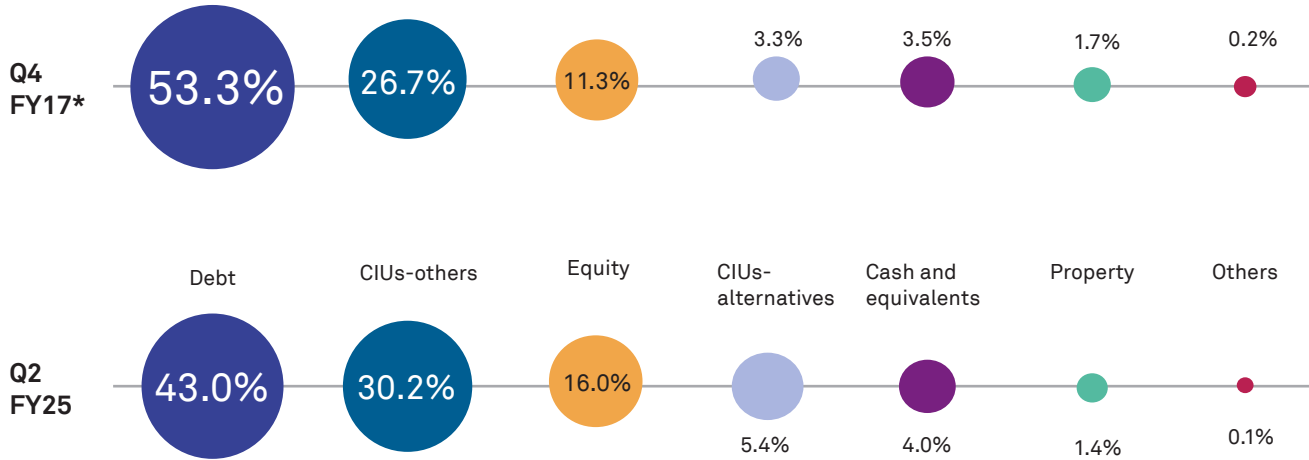
which includes 27 countries that are part of the European Union and Iceland, Norway and Liechtenstein, have increased exposure to Collective Investment Undertakings (CIUs) – Alternatives<sup>9</sup> to 5.4% (€508.72 billion) as of the second quarter of fiscal 2025 from ~3.3% (€269 billion) in the fourth quarter of fiscal 2017.

### Insurance companies globally are increasing exposure to alternative assets

According to the European Insurance and Occupational Pensions Authority (EIOPA), insurance companies across the European Economic Area,

<sup>9</sup>Includes exposure to private equity, infrastructure, real estate and alternative funds

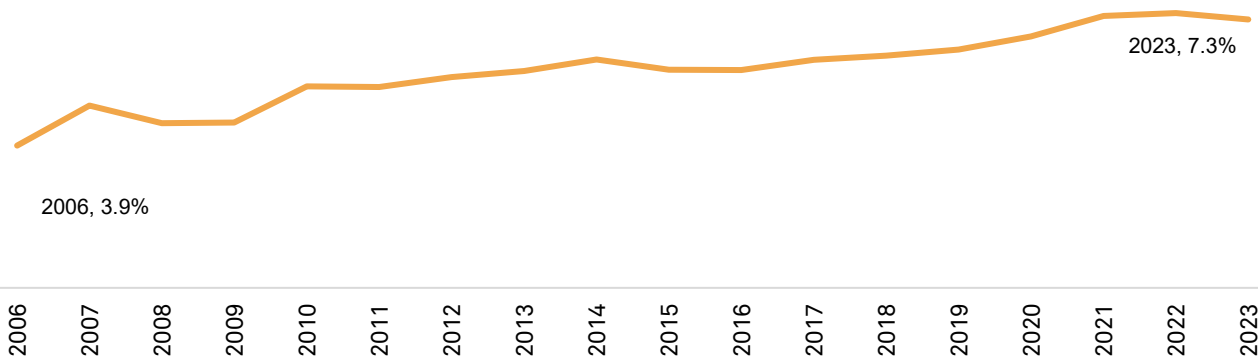
Asset exposure of European insurance companies



\* Earliest available data  
Note: CIU-Alternatives include exposure to private equity, infrastructure, real estate and alternative funds.  
Source – EIOPA, Crisil Intelligence

Similarly, life insurers in the US increased their share from the Board of Governors of the Federal Reserve System in alternative investments to 7.3 % in 2023 from 3.9% in 2006, according to the Financial Stability Report

US life insurers' exposure to alternative assets



Source – The Federal Reserve System, Crisil Intelligence

While globally, insurers have increased their exposure to alternatives to match their long-term liability profile and achieve portfolio diversification, Indian insurers (both life and general) have invested less than 1% of their assets in AIFs, as per public disclosures. The exposure to long-term AIF strategies such as venture capital funds, private

equity and infrastructure funds can be beneficial to insurance companies as it can help them in their asset-liability management, while that to private credit strategies can help them in managing their regular liabilities. The under-exposure of insurance companies to AIFs is a potential that can be tapped by the AIF industry.

## Banks: an indispensable source of funds for AIFs

The Reserve Bank of India (RBI) oversees banks' operations and ensures their compliance with laws and regulations. Similarly, it also sets the guidelines and rules for their investments, lending and risk management practices. As of March 2024, total investments under the management of scheduled commercial banks (excluding rural regional banks) logged a CAGR of 9.9% between fiscals 2018 and 2024.

### Investment guidelines for banks in AIFs

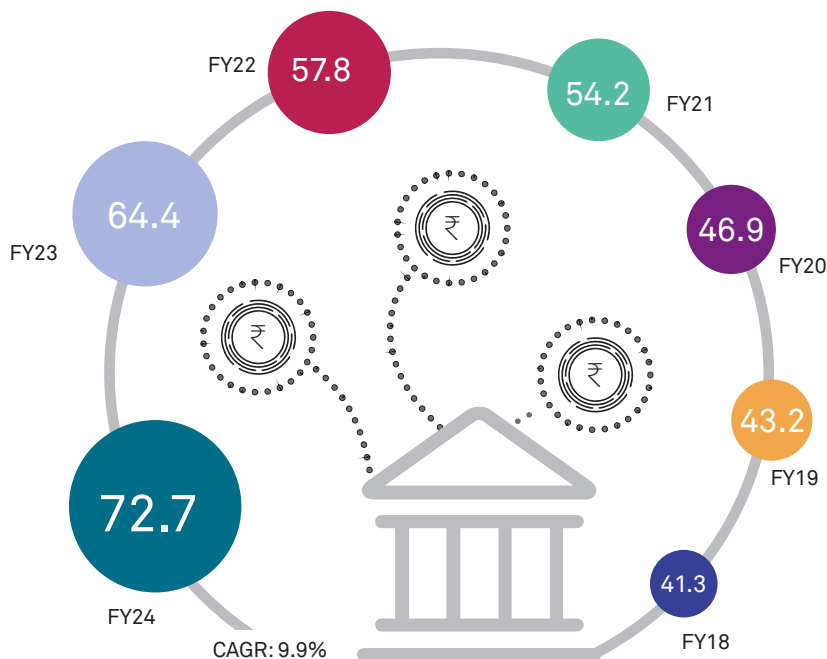
The RBI issues circulars and guidelines outlining the conditions and rules for banks to follow when making investments, including investments in AIFs from time to time.

Banks historically have invested in AIFs. Investing in debt AIFs helps them access borrowers outside their risk appetite while allocation to strategies such as infrastructure helps in accessing a portfolio of infrastructure assets, instead of a single asset, when lent directly.

SEBI, in October 2024 came up with a circular for AIFs to conduct special due diligence. This was done with an intent to ensure investor protection by putting in guardrails to mitigate the risk of loan evergreening.

This was followed by RBI's directives, in August 2025, which allowed investments by banks up to 10% of the AIF's corpus. Additionally, the banks were given the flexibility to invest up to 5% of the AIF's corpus

AUM (Rs in lakh crore)



Source: RBI, Crisil Intelligence

without any provisioning requirements. It also stated that collective investments by banks and regulated entities in AIF shall not be more than 20% of the corpus of that scheme. These directives followed a December 2023 circular requiring banks to either liquidate their positions in debtor companies where AIFs invest or fully provision their AIF exposure in downstream investments, resulting in a decline in bank investments in AIFs.

While the revised directives will help banks ramp up their exposure to AIFs, the limits like capping the exposure to 10% of a single AIFs corpus may discourage banks from becoming the lead investors for AIFs.

# Evolution of India's family offices and high-net-worth individuals

India ranks third in terms of the number of billionaires, led by the US and China. According to The Wealth Index report by 360 One Wealth, India had over 300 billionaires as of 2024.

The Indian landscape of high-net-worth families is undergoing a significant transformation, with

objective of these offices is to ensure the long-term preservation and growth of family wealth while addressing the family's unique needs and goals.

AIFs offer a range of products to cater to the diverse needs of family offices. However, according to industry sources, Indian family offices have a comparatively lower exposure to AIFs compared with their global counterparts.

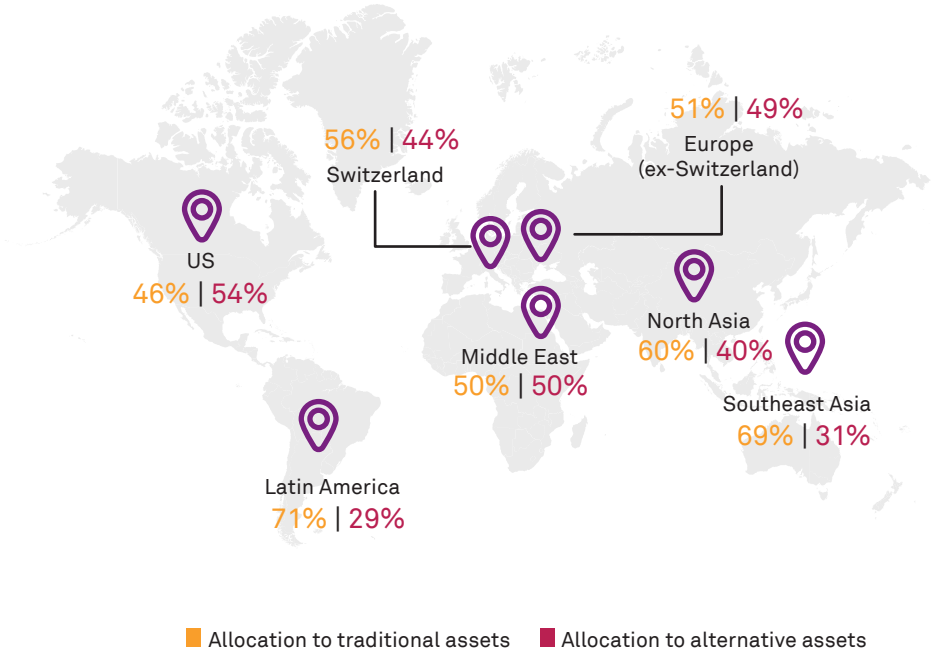
## US family offices are highest allocators to alternative assets at 54%

According to the UBS Global Family Office Report 2025, family offices in geographies such as the US, allocate as high as 54% to alternative assets, followed by the Middle East at 50%.

a growing number of families establishing formal family offices to manage their wealth.

A family office is a dedicated entity that oversees the business, investment and personal affluent families or individuals seeking to grow and transfer their wealth to future generations. The primary

### Investment allocation of family offices globally



Source: UBS Global Family Office Report 2025, Crisil Intelligence

# The 360 ONE perspective: Unlocking the power of alternatives



## A proactive and enabling regulatory backdrop

India's capital markets are approaching an opportune convergence—an ambitious nation scaling rapidly, a regulator that has been consistently forward-looking and an investor base that is more discerning and institutionally oriented than ever before. This alignment has reshaped how capital is formed, allocated and grown. SEBI's proactive regulatory stance, the government's broader reform push and the rising sophistication of DII's have together created one of the world's most dynamic environments for alternative investments. The result is an industry that is not only expanding in size but maturing in character—built on stronger governance, deeper conviction and a clearer understanding of risk and reward. Over the last decade, the AIF industry has benefited from a regulatory approach that is both proactive and enabling. SEBI's steady cadence of measures—from standardising disclosures and valuation norms to introducing co-investment structures, dematerialisation and competency standards—has given the industry the clarity and discipline it needed to mature responsibly. The regulator has stepped in at the right moments, strengthening transparency and investor protection while still giving the ecosystem room to innovate, professionalise and grow.



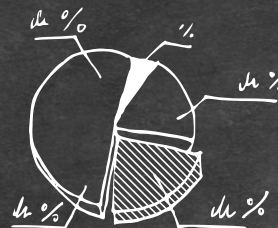
## The appeal of alternatives

As one of India's largest wealth and asset managers, we have witnessed the evolution of alternative assets from the closest vantage point possible. With our total AUM increasing at a 24% CAGR (FY21–FY25), we have grown alongside our clients—including UHNI families, founders and family offices. Through our years of advising these DIIs, one clear trend has emerged: the meaningful shift toward alternatives. Our Wealth AUM (less custody) has grown from INR 167,090 crores in September 2021 to INR 420,898 crores in September 2025. The allocation to alternatives has grown from 12-13% in September 2021 to 15-16% in September 2024 to 19-20% in the last 12 months through September 2025. This is more than an incremental trend—it is a structural reallocation of capital toward investment strategies that offer attractive risk-adjusted alpha and long-term compounding.



## Rise of the sophisticated Indian investor

15-20 years ago, some investors in India dipped their toes into alternatives without fully grasping the nuances between categories. Early-stage venture capital was conflated with growth equity; performing credit was seen as interchangeable with special situations. Experiences were mixed—early entrants into initial AIF vintages faced challenges due to immature fund structures, inconsistent governance and insufficient liquidity avenues. However, the last ten years, particularly the last five, have been transformational. Today, our clients clearly understand the difference between venture capital and private equity and between performing credit and distressed turnarounds. They have embraced innovative strategies including venture debt, deep tech, multi-asset, secondaries and REITs/InvITs. Importantly, our clients who have invested in the last ten years have fared well; they have seen performance delivery through cycles and have developed a sound understanding of the alternative asset class as well as its sub-classes, each with their distinct risk-reward profiles.



360  
ONE



## Not only LPs, GPs have also upped their game

India's maturing ecosystem has catalysed product innovation. With investors becoming more sophisticated, the market has evolved to offer differentiated strategies across private equity, private credit, real estate & infrastructure, secondaries and thematic plays. The era of one-size-fits-all alternatives is over; the era of precision-engineered, institution-grade products has begun. 360 ONE Asset Management has been a pioneer in India's alternative assets journey. We secured our AIF license soon after the SEBI regulations were announced in 2012. We launched our public equity and real estate investment strategies first, followed by private equity and private credit. Over the years, we have successfully launched India's first private sector fund-of-funds, the first pre-IPO fund and the first direct secondaries fund. Today, our Asset Management AUM has surpassed INR 92,000 crores, split roughly evenly between public equity and alternative assets. Our market-leading venture capital and private equity platform is truly end-to-end, from idea to IPO. We have one of India's largest private credit businesses and a rapidly growing real assets business, along with a seasoned co-investment program focused solely on alternatives.



## The emergence of family offices

When we analyse our clients' approach towards alternatives over the last decade, two structural changes stand out. First, many of our clients have experienced a generational transition. With rare exceptions, the younger 'next gen' is more familiar with alternatives and more inclined to increase allocations. Second, many large families have professionalised their investment function and have hired CIOs and investment teams with experience in managing alternatives strategies. Some of these family offices are building out US-style endowment portfolios where alternative assets will feature prominently. While their due diligence may be more efficient, these DII's ask the same tough questions asked by global institutional investors and have adopted the same rigor in terms of fund manager selection and fund performance monitoring.

## Where do we go from here?

360 ONE data indicates that client portfolios with meaningful alternatives allocations have outperformed; those with co-investments have outperformed even further. In summary, our perspective mirrors the trend documented in this pathbreaking report: while the growth in alternatives investing over the last decade has been impressive, there is ample headroom for further growth. For example, our clients' current allocation of 19-20% to alternatives is a long way away from the 54% allocated by US family offices per the UBS Global Family Office Report 2025. At 360 ONE, we are confident that our clients will continue to seek exposure to differentiated alternatives strategies, high-performing fund managers and high-quality co-investments. And that this group of DII's will represent a solid and growing foundation for domestic capital investments into alternative assets.

Data source: 360 ONE

Securities investments are subject to market risks. Please consult your financial advisor before investing



## Collaborative efforts needed for the next phase of growth

Lack of awareness and understanding of the AIF ecosystem, operational challenges, lower transparency and concerns about liquidity are some of the reasons for lower exposure to AIFs by these DIIs. As the product becomes increasingly popular among institutional investors, industry and other stakeholders must engage with the potential investors to allay their fears.

For the AIF industry's next phase of growth, all stakeholders, including the industry body, the regulator and government bodies, must make a coordinated effort.

The following cases <sup>10</sup> of China and Israel are examples where such efforts have helped the industry grow by leaps and bounds.

## Case study 1: China's rise to private capital prominence



### Challenges before 2006

- China's PE and VC activity relied heavily on foreign capital
- Domestic institutional investors were absent from the market
- The local capital market was fragmented and underdeveloped, with a few exit options for small and medium enterprises (SMEs)
- GDP at current prices (2006): 2,797.29 (US \$ Bn)



### Key interventions

1. Legalising trusted fund structures (2007): Introduced limited partnership model, which enabled domestic managers to raise renminbi-denominated funds.
2. Opening SME-friendly exit venues (2009 onward): The launch of ChiNext, New Third Board and Beijing Stock Exchange gave SMEs and technology innovators multiple exit channels, thus helping recycle capital domestically.
3. Mobilising national savings (2008 onward): Allowing pension and insurance reserves to invest in domestic PE and VC funds helped unlock over \$1 trillion of long-term and patient capital as anchors to private funds.
4. Scaling government guidance funds (mid-2010s): Launched publicly seeded vehicles in the form of government guidance funds (GGFs) to co-invest with private fund managers in strategic sectors.
5. GDP at current prices (2020): 15103.36 (US \$Bn)

<sup>10</sup>Based on inputs shared by IVCA



## Outcomes

- Unlocked domestic capital and stimulated renminbi-based funds
- Built multi-layered exit options for SMEs and tech innovators
- Aligned finance with policy through GGFs
- Encouraged specialisation and professionalisation among fund managers
- Fundraising for China-focused private equity funds grew from US\$3.9 billion raised by 28 funds in 2007 to US\$16.6 billion raised by 63 funds in 2011. On the investment side, aggregate annual deal activity in China went from a peak of US\$9.5 billion in 2007, to a trough of US\$6.3 billion in 2009 and rebounded to US\$10.5 billion in 2011. (Emerging Markets Private Equity Association)



## Takeaway

- China's domestic capital transformation was a state-enabled evolution that built an indigenous private capital ecosystem rivalling global peers. Emerging economies can draw on this model by building credible fund structures, mobilising local institutional limited partners and aligning capital with long-term national priorities to achieve sustainable growth.
- GDP at current prices (2025): 19.4 (US \$ Trillion)

## Case study 2: Building a domestic private capital ecosystem in Israel



### Challenges before the 1990s

- Israel's private equity (PE) and venture capital (VC) landscape was nascent and dependent on foreign investment. The country lacked domestic fund structures and professional general partners (GPs). Growth companies had limited exit options, with NASDAQ listings being the primary route, and domestic institutional investors not playing a role in VC.



### Key interventions

1. Seeding a professional VC industry (1993-1998): The Yozma Programme, launched in 1993, with \$100 million capital, co-founded 10 hybrid VC funds with foreign partners. Backed by this fund, industry's total assets under management reached \$9.6 billion, creating a multiplier effect of 96x.
2. De-risking early-stage innovation (1991): Technological incubators and conditional research and development (R&D) grants supported start-ups, expecting repayment only through royalties, if successful. This de-risked early R&D and created a stable deal flow for VC funds.
3. Opening domestic exit channels (2000): The dual-listing law allowed Israeli companies to trade on the Tel Aviv Stock Exchange (TASE) and foreign exchanges such as the New York Stock Exchange or NASDAQ. This not only expanded liquidity and provided domestic investors access to growth technology companies but also kept part of the capital-recycling loop in Israel.
4. Mobilising national savings (2024-2025): The government of Israel launched Yozma 2.0, a co-investment platform designed to crowd-in Israeli pension funds and insurers into VC funds through return-enhancement mechanisms and government participation.
5. Tax and regulatory catalysts (2010s-2020s): The Angel's Law and preferred technology enterprise (PTE) regime provided tax incentives for investors and reduced the cost of risk capital.
6. International co-R&D bridges (1977): The BIRD Foundation and binational funds supported joint R&D projects with foreign partners, which globalised Israel's innovation network, while ensuring that core R&D remained onshore.



### Outcomes

- The interventions mobilised domestic capital and deepened GP bench
- They enabled multi-track exits and policy-aligned innovation
- Israel now spends ~6% of GDP on R&D intensity while the tech sector contributes 18-20% to the country's GDP and 53% of exports



### Takeaway

- Israel's transformation demonstrates the impact of state-enabled market design in seeding a globally competitive private-capital ecosystem

# Untapped potential for investments in AIFs

The below table provides regulatory investment guidelines pertaining to investment in AIFs applicable to domestic institutional investors such

as insurance companies and pension and provident funds, and their potential to invest in the AIFs

	Investment guideline	Current status	Scope
EPFO	Category V investments – asset-backed, trust-structured and miscellaneous investments (up to 5% of incremental cash flows)	No investments have been made yet	Assuming incremental flows of ~Rs 5 lakh crore per year, the maximum annual investment into AIFs will be ~Rs 25,000 crore
National Pension System	Under All Citizen Model, investments are allowed in Scheme A in which investors can allocate a maximum of 5% of the total amount invested by subscriber	No investments have been made yet	If the entire limit of Scheme A under all citizens model is utilised invested in AIFs, it can unlock an investment of ~ Rs 13,300 crores. (As of March 2025, total AUM under All Citizen Model was ~ 2.68 lakh crores)
Life and general insurance companies	Up to 3% of respective fund size of life insurance companies and up to 5% for general insurance companies	Less than 1% of the limit has been used by life and general insurance companies put together	If the entire limit is used by the life and general insurance companies, AIFs can receive a potential investment of Rs 2.15 lakh crore (Rs 1.85 lakh crore from life insurers and Rs 30,000 crore from general insurers)

## The endowment engine: Building India's long-term capital architecture

India stands at a pivotal inflection point: the nation has scale, talent and ambition, but its long-term capital architecture is still developing.

Globally, the most resilient innovation ecosystems are built on university endowments, which are patient, perpetual capital that can withstand market cycles and continually fund progress.

Endowments preserve their core capital while deploying a carefully managed payout, allowing these to operate as evergreen financial engines that compound value over time. This disciplined structure supports research, nurtures talent, strengthens infrastructure, and ultimately drives long-term knowledge creation, economic resilience and national competitiveness.

Globally, university endowments have proven to be among the most durable foundations of innovation and institutional excellence. Among these are:

- Harvard University's endowment, which began with small alumni gifts in the 1600s, that, through a disciplined investment and spending strategy, has grown to \$56.9 billion as of June 2025
- Stanford University's endowment, which is built on alumni philanthropy and a strategic tilt toward private markets, having grown to \$40.8 billion as of August 2025
- MIT's endowment, which, anchored in technology philanthropy and research reinvestment, stood at ~\$27.4 billion as of June 2025

- Yale University's endowment, which grew over 4x between 2001 and 2025 to \$44.1 billion, illustrating how a disciplined, long-term investment strategy can rapidly scale institutional capacity while preserving intergenerational equity

These institutions follow a clear formula: alumni trust + disciplined investing + long-term consistency = perpetual innovation funding.

If India were to establish such an endowment pool, it could fund numerous research labs, support a significant number of scholarships, and provide stable capital for deep-tech, biotech and space-tech ventures, thereby reducing dependency on global capital volatility.

In India, IvyCap Ventures was among the few Indian funds to catalyse India's first major alumni endowment initiative at IIT Delhi in 2019. Institutions such as IIT Delhi, IIT Madras, IIT Kharagpur and leading IIMs are building professionally managed, alumni-backed endowments that support long-term academic strength and innovation capacity.

So, endowment funds in India, though still at an early stage, are gaining meaningful traction.

These can subsequently serve as long-term institutional investors, providing capital to AIFs for extended periods, which can help the AIF industry with the much-required patient capital and help India's innovation ecosystem.

# The road to progress

The AIF industry in India has recently attracted strong investor interest and has grown in terms of assets. Sustaining this momentum is crucial for further expansion in coming years.

Regulatory measures have focused on strengthening governance, enhancing transparency, building investor confidence and boosting participation, all of which support industry growth.

IVCA, as an apex industry advocacy body, has provided the required support to the regulator in driving foundational and progressive policy changes.

It is very important for the industry to lend an ear to the LPs and understand their challenges and work towards resolving them. The challenges include:

## **Building trust**

The industry can build on the regulator's efforts by adopting best practices pertaining to disclosures and governance. One key area is providing regular and detailed portfolio disclosures to LPs, including near-term growth expectations and potential risks. Presenting performance against relevant benchmarks can further boost investor confidence.

AIFs are typically long-term and closed-ended products, whose performance largely depends on the experience and skill of the investment team.

Management fees enable AIFs to attract top talent to make decisions related to investments and exits, while financial performance fees provide incentives that promote team stability. Performance fees are part of the profits earned when returns exceed the hurdle rate. It is important that the investment managers communicate the fee structure transparently to investors.

To boost investor confidence, the industry can also collaborate with relevant stakeholders to establish benchmarks for expenses and fees similar to performance benchmarking.

Regular and transparent reporting to the LPs and continuous engagement with them can help develop trust in AIFs.

## **Education and capacity building**

Engagement with potential investors can also help demystify AIFs for them and bridge the knowledge gap.

Additionally, structured knowledge-sharing programmes with HNIs, UHNIs, family offices and investment teams in insurance companies and retirement funds can deepen stakeholder understanding, enabling more informed decision-making by potential LPs.

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This entire section is based on inputs from IVCA

## Liquidity

The performance of AIFs depends not only on identifying a great investment opportunity, but also on the ability to exit said investment in a timely manner. Providing liquidity to the LPs through timely exits helps recycle the investment, thus leading to a virtuous cycle of growth.

While AIFs maintain their focus on exits, it is also important that these are disclosed and benchmarked against. The industry, with the support of the regulator, can share the data with the relevant stakeholders so that it can be collated, compared, analysed and provided to investors to help them make an informed decision.

Additionally, the industry may also look at innovative fund structures that help the LPs with partial or structured liquidity during the tenure of the fund.

## DII participants

The following section discusses some of the steps that may be taken to improve participation by various DIIs.

### Retirement funds – EPFO and NPS

EPFO and NPS are allowed to invest in specific strategies under categories I and II of the AIFs. This allocation may not always align with the investment objective of the retirement fund. For instance, EPFO's investment pattern does not clearly state if investments can be made in debt AIFs. Since EPFO declares interest rates for its subscribers annually, it can benefit from investing in debt AIFs, which have regular distributions and can provide liquidity to the organisation.

As discussed earlier in this report, the NPS faces certain operational issues like the daily NAV declaration which may pose a challenge for those AIFs which value their portfolio on a semi-annual or an annual basis. Ambiguity regarding the usage

of the “Excuse Clause” to allow retirement funds to participate in AIFs, which make foreign investments, is a challenge to investment in domestic funds that also pursue global opportunities.

The following steps may help in overcoming these challenges to a certain extent:

1. Clarification on allowing EPFO and NPS to invest in debt-focused strategies can help them manage their regular liabilities
2. Presenting a framework like an operating manager model or the outsourced CIO model to EPFO through which it can start investing in AIFs, given that the asset class is new for the EPFO
3. As a start, EPFO may start participating in AIFs through government-backed fund of funds which will help in professional selection of funds to be invested according to EPFO's investment guidelines
4. Exemption from declaration of daily NAV for Scheme A may be considered to overcome operational challenges
5. AIFs can be included as one of the asset classes in the auto-choice strategy for subscribers up to a certain age and with an upper cap on allocation
6. Seeking clarification from the PFRDA about the usage of “excuse clause” to invest in AIFs via a new class of units that specifically excludes exposure to overseas investments

### Banks

The RBI directives of 2025 have provided certain flexibilities to regulated entities to invest in AIFs which has a downstream exposure to a debtor company. However, the provisioning requirement for investment above 5% of the AIF's corpus in a downstream debtor company may be a challenge

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This entire section is based on inputs from IVCA

for the banks and NBFCs. Additionally, the cap of investing only up to 10% of the AIF's corpus, limits regulated entities from becoming anchor investors in AIFs.

The industry can continue its engagement with the RBI to rationalise the provisioning requirements for the investments made by regulated entities in government-sponsored fund of funds, which may help mitigate the risk of loan evergreening as well as help in credit formation.

### **Insurance companies**

Currently, insurance companies are allowed to invest 10% of the fund size of an AIF, which is increased to 20% in case of an infrastructure fund. Standardising the definition of eligible portfolio parameters for infrastructure funds will bring in clarity and help insurance companies willing to invest in this strategy.

Additionally, insurance companies are not allowed to invest in an AIF that has downstream exposure to a fund of funds in which it has already taken an exposure. This restriction may be reviewed, subject to compliance with the overall exposure limits.

In addition to the above specific areas, IVCA needs to continue its advocacy on the following points:

- Addressing the issue of permitting pass-through of expenses for Category I and II AIFs
- Formalising recognition of AIF LLPs which includes points such as investor admission and exits to be governed entirely by an LLP agreement, removing statutory unanimity constraints and protecting the confidentiality of the LLP agreement
- Building capacity through thought-leadership and training programmes specifically designed for investment teams of DIIs such as retirement funds and insurance companies

## **To conclude**

The AIF landscape in India presents a significant opportunity for DIIs to diversify their portfolios and potentially reap higher returns. Despite the regulatory limits in place, many DIIs, including retirement funds and insurance companies, have not leveraged the allocation. In fact, several of these have not invested in AIFs to date, highlighting substantial scope for increased participation. As stated above, investing in AIFs can benefit the DIIs, AIF industry, entrepreneurs and India, which remains one of the fastest growing economies in the world.

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This entire section is based on inputs from IVCA

# Domestic Capital Perspectives: Insights from IVCA's 2025 Domestic Institutional Investor (DII) Roundtables

The IVCA conducted closed-door Domestic Institutional Investor (DII) Roundtables across Mumbai, Delhi, Bangalore, and Hyderabad, attended by 80+ CIOs from Institutional Funds and Family Offices. The discussions revealed a clear consensus among domestic LPs on the need for stronger governance, greater transparency, standardised reporting formats, and better fee alignment. A key insight was the need to educate domestic LPs on the AIF asset class and its performance relative to public markets, a gap this report seeks to address. Investors also underscored the importance of semi-liquid structures, deeper secondary markets, and more predictable exit pathways. Additionally, participants highlighted that regulatory clarity for insurance, pension, and bank allocations remains the biggest unlock for domestic capital. Overall, domestic LPs expressed a strong appetite to participate more meaningfully in India's alternatives and startup ecosystem.

## Quotes from IVCA's DII Working Group:

As India moves toward a \$7 trillion economy by 2030, mobilising long-term domestic capital with the patience for medium- to long-term, high-return investments becomes critical. With over Rs 110 lakh crore available across pension and insurance systems, even calibrated allocations to AIFs which have consistently outperformed public benchmarks can meaningfully strengthen India's growth, innovation and market resilience. ~ Shri Anup Wadhawan, Additional Director (Independent) IVCA, Ex-Commerce Secretary, Government of India

The AIF industry in India has truly come of age, is well-regulated, fast-growing and central to fuelling

the country's innovation economy. With 30%+ CAGR in commitments over the past four years and more than 1,600 SEBI-registered funds, AIFs are expanding access to capital while delivering strong alpha. We are at an inflection point, and deeper domestic institutional participation is essential. Crisil's report is timely and offers data-backed, actionable insights on the industry's progress and performance." ~ Ashu Suyash, Founder & CEO, Colossa Ventures

Domestic institutional investor (DII) capital in alternative assets has reached a new level of maturity. Its influence is expanding in both scale and depth across venture capital, private equity, private credit, real estate and infrastructure. DII LPs are backing emerging themes and established strategies with steady conviction. Homegrown GPs are challenging global peers, addressing market gaps and strengthening overall ecosystem capacity. The rise of DII capital in India's private markets reflects broader global patterns as well as the evolution seen in India's public markets. At 360 ONE, we are pleased to partner with IVCA to promote this important initiative. ~ Sameer Nath, CIO & Head, Venture Capital & Private Equity, 360 One Asset

We have built a leading homegrown VC fund backed by Indian institutions, and the strong returns we have delivered have strengthened trust across both Indian institutions and the startup ecosystem. With 650 million (INR 6,000 crore) in AUM and support from 28 institutions (13 banks, 10 insurers, and 5 government entities), we operate a technology-led platform. Delivering 3x DPI, creating India's first homegrown dragon exit, Purple.com, and giving back carry to Educational Institutions through our

Endowment model reflect our long-term impact. Our success stands as a testament to the strength of the homegrown VC industry. ~ Vikram Gupta is the Founder and Managing Partner of IvyCap Ventures

**IVCA Team Members in the Working Group:**

- Rajat Tandon, President, IVCA
- Amit Pandey, Lead: VC Ecosystem & Capacity Building, IVCA



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Established in 1993, the Indian Venture and Alternate Capital Association (IVCA) is a non-profit organization that serves as a prominent apex industry body dedicated to promoting the alternate capital industry and nurturing a thriving investment environment in India. IVCA is resolutely committed to bolstering the ecosystem by advocating regulatory interventions, facilitating constructive dialogues with the Government of India, policymakers, and regulators. This collaborative approach fosters increased entrepreneurial activity, innovation, job creation, and contributes to positioning India as a pre-eminent fund management hub.

With 480+ members and a combined AUM of over \$350 billion, IVCA's esteemed membership comprises the most active domestic and global funds, including VCs, PEs, Infrastructure Funds, Real Estate Funds, Credit Funds, Investment Companies, Family Offices, Corporate VCs, CAT III Funds, Hedge Funds, Limited Partners and Knowledge Partners.

Within the SEBI registered AIF landscape, 46% of all registered AIFs are IVCA members. Within the total IVCA Members, 74% of them manage AIFs.

IVCA stands as the sole industry association for alternate capital funds engaged in investments within India, and it is collectively owned by industry members. IVCA holds legal registration as a Section 8 entity, which signifies a non-profit organization. Vistra ITCL (India) Limited is the custodian of IVCA's trust held shares.

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