

Scheme Models and use of LLP for AIFs in India

Introduction

Alternative Investment Funds (“AIFs”) in India are granted a perpetual registration to operate in that capacity by the Securities and Exchange Board of India (“SEBI”). While the term ‘AIF’ is defined to mean the pooling vehicle or the fund itself under the SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”), there is a separate enabling provision under the regulations to allow the AIF to launch ‘schemes’ subject to filing placement memorandum with SEBI, indicating that multiple funds (or pooling vehicles) may exist within a single AIF registration in the form of schemes. Other provisions under the AIF Regulations indicate that a single fund may also operate under the AIF registration.

This article aims to provide a structural understanding of AIFs in India (as pooling vehicles themselves, versus as launching multiple pooling vehicles within its perpetual registration) from the perspective of laws of incorporation or organisation, commercial preferences, costs, efficiency, operational and regulatory ease. At the end, there is a related discussion around recent developments proposing a new corporate structure for AIFs in India.

References to a ‘multi-scheme’ structure in this article pertain to an AIF which has chosen to launch multiple funds within a single registration, whereas references to ‘single-scheme’ structure should be understood to mean AIFs which have chosen to launch itself as the single fund under its registration.

Legislative Background

The concept paper released by SEBI on August 01, 2011, for the introduction of the proposed legal framework for AIFs did not originally envision a single AIF being able to launch multiple schemes. Instead, each AIF was intended to be registered as a single-scheme or fund having one set of investors and a single distinct portfolio. However, this position did not translate into law and the AIF Regulations which came into force in 2012 allowed a single AIF to launch multiple schemes, similar to how mutual funds and venture capital funds (under the erstwhile SEBI (Venture Capital Funds) Regulations, 1996 (“VCF Regulations”)) are structured. There is, however, an intelligible differentia between (i) mutual funds and AIFs in law, as the former can only be structured as trusts whereas the latter can also be set up as companies or limited liability partnerships (“LLPs”); and (ii) venture capital funds under the erstwhile VCF Regulations and AIFs in law, as the former had a clear distinction between “scheme if the VCF is a trust” and VCF itself if it is set up as a company, whereas no such distinction exists under the AIF Regulations.

A decade later, in 2022, taking note of the growing multi-scheme structures in the industry, SEBI introduced an express provision in the AIF Regulations to require fund managers and trustees to ensure that the assets and liabilities of each scheme of an AIF, and bank account and securities account of each scheme are segregated and ring-fenced from those of all other schemes of the AIF.

As of June 2022, there were more than a hundred multi-scheme AIFs having launched at least two schemes, with 6% of them having more than ten schemes. Since 2022, this number is expected to have only increased.

Why Trust Structures Have Been the Natural Home for Multi-Scheme AIFs

More than 95% of the registered AIFs in the market today are set up as trusts under the Indian Trusts Act, 1882 (“Indian Trusts Act”).

A trust is created when the author of the trust (settlor) clearly shows an intention to create a trust, specifies its purpose, identifies one or more beneficiaries and transfers the trust property to the trustee with instructions that such trust property is to be held by the trustee for the benefit of the beneficiaries. Typically, in the context of an AIF set up as a trust ("Trust AIF") launching a single scheme, a settlor through an indenture of trust appoints a trustee for the trust, settles an initial settlement amount, and instructs the trustee to hold the initial settlement amount, along with any accruals, including investments in portfolio entities (trust property) for the benefit of identified investors (beneficiaries). In the case of a Trust AIF structured to enable the launch of multiple schemes, the settlor enables the trustee to launch multiple schemes under the same indenture and instructs the trustee to hold the portfolio of one scheme only for the benefit of the relevant investors of that scheme.

Accordingly, a position can be taken that by structuring the indenture to enable the launch of multiple schemes, each such scheme is its own trust under the Indian Trusts Act. This ability to house multiple schemes under the same indenture is a feature unique to trust structures and is possible due to the light touch framework set out under the Indian Trusts Act. A similar multi-scheme structure housed within a single LLP or company may not be automatically possible through a single instrument of creation or incorporation under the Limited Liability Partnership Act, 2008 ("LLP Act") or the Companies Act, 2013, respectively.

Multi-Scheme v. Single-Scheme AIFs

Cost, Time and Regulatory Efficiency

There are various factors that influence a fund manager's decision to have a multi-scheme or single-scheme AIF structure. Cost is one important consideration especially for first-time fund managers. For example, a private equity fund proposing to register as a Category II AIF will have to pay a registration fee of INR 10,00,000 just once at the time of registration of the AIF with SEBI and can subsequently launch each new scheme at a lower fee of INR 1,00,000.

In a single-scheme structure, each scheme would need to be registered as its own AIF and pay a registration fee of INR 10,00,000 each time. Accordingly, a multi-scheme AIF structure allows the managers to raise successive pools of capital aligned with distinct investment strategies without incurring a full registration fee for each fundraise. Further, launching a new scheme under an existing AIF is typically processed more quickly by SEBI than registering a fresh AIF, enabling faster time-to-market.

The compliance burden, including associated costs, is also lower in a multi-scheme structure, as the manager only needs to comply with the requirements applicable to a single AIF, rather than multiple AIFs. In contrast, in a single-scheme structure, each scheme would require a separate AIF registration, along with its own set of AIF-level compliance requirements.

The introduction of the co-investment scheme framework by SEBI further strengthens the case for adopting a multi-scheme AIF structure. These schemes are required to be launched for co-investment in a single portfolio company, and participation is restricted to investors of an existing scheme of the AIF. As a result, a multi-scheme structure provides the necessary flexibility to launch such co-investment schemes alongside the main fund strategy under the same AIF, without requiring a separate AIF, thereby making it operationally and commercially more efficient for fund managers.

Ring-fencing of Assets and Liabilities

At the same time, it is relevant to note that pursuant to the 2022 amendments to the AIF Regulations, ring-fencing and segregation of the assets and liabilities of each scheme of an AIF are now a regulatory requirement. In practice, each scheme typically obtains a separate Permanent Account Number (PAN), resulting in each scheme of the same AIF being treated as a separate assessee for taxation purposes. Accordingly, where the indenture of trust is appropriately structured to ensure that each scheme is

constituted and recognised as a separate trust, the assets and liabilities of each scheme should be sufficiently ring-fenced from those of other schemes. This protection may be further strengthened through contractual ring-fencing provisions in the fund documents.

Where an AIF is set up as a LLP or a company, the ability to achieve absolute segregation of assets and liabilities at a scheme level is inherently limited under the laws governing incorporation, given that the LLP or company constitutes a single juridical entity. While contractual ring-fencing may still be implemented in such structures, it may not offer the same level of protection as a trust-based structure. This limited ability to fully segregate liabilities is also a key consideration for certain institutional investors, who may prefer (or require) a single-scheme AIF structure to avoid any potential exposure to liabilities arising from other schemes. Accordingly, the choice of legal form of the AIF assumes added significance when evaluating a multi-scheme structure, alongside the commercial and regulatory considerations discussed above.

Commercial and Investor Considerations

If a manager proposes to offer two inherently distinct investment strategies such as a private equity investment scheme and an infrastructure focused scheme, it may be preferred to launch separate AIFs. Moreover, the AIF Regulations require all schemes of an AIF to have the same sponsor and manager entity. So, where schemes are commercially required to have different sponsors and / or manager entities (assume one additional GP for a slightly different strategy, for example), each fund would need to be launched as a separate single-scheme AIF for operational ease.

Certain governance matters, while arising at the scheme level, may have implications at the AIF level across all schemes. For instance, provisions relating to the removal of the manager under the scheme documents may require the consent of investors holding 75% by value of their investment. In a single-scheme AIF, this threshold is readily calculated with reference to all investors in the scheme. However, in a multi-scheme structure, the appropriate basis for computing such a threshold is not clearly defined.

In particular, it is unclear whether it would be sufficient for investors in a single scheme to meet the 75% consent threshold to effect the removal of the manager for the entire AIF, or whether such approval must be obtained separately in respect of each scheme, or alternatively, computed with reference to investors across all schemes on an aggregated basis.

This potential for dilution of voting rights is a key reason, in addition to lack of precedence upholding the ring-fencing of assets and liabilities across schemes, as to why certain investors (institutions who are regulated entities themselves, in particular) prefer, and make it non-negotiable, to have a single-scheme AIF structure.

Alignment with Global Practices

Foreign investors, especially global allocators, are familiar with the multi-scheme structure as it aligns with global practices of investment funds being structured as umbrella funds. The Cayman Islands have the Segregated Portfolio Company structure, while Mauritius and Singapore have investment vehicles structured as Variable Capital Companies. Each of these structures allows sub-funds/segregated portfolios to be managed under an umbrella fund with the requirement under the respective statutes to ensure ring fencing between the sub-funds. However, the legal understanding of such structures is quite different in India because there is no corporate legal framework designed to permit a segregated portfolio structure within a single incorporation, except as explained for a trust structure.

In the Indian context, conversation around multi-scheme structures for investment funds which would most align it with global best practices, often leads back to the honourable Finance Minister's budget announcement in 2024 on the proposal to seek legislative approval for an efficient mode of pooling funds of private equity through a variable capital company structure. There have been no formal developments on this yet.

Conclusion

On March 23, 2026, the Corporate Laws (Amendment) Bill, 2026 was introduced in the Lok Sabha ("Bill"). The Bill proposes amendments to the LLP Act which include changes pursuant to the government's post-budget announcements earlier this year aimed at aligning the LLP framework with the functional and operational requirements of AIFs. While the industry has long advocated for these amendments to facilitate the theoretically permitted use of LLPs as AIF vehicles, certain gaps in the Bill have given rise to interpretational uncertainty.

In particular, the proposed framework enables the conversion of single-scheme AIFs set up as trusts into LLPs, but does not clearly extend this pathway to multi-scheme AIF trust structures. Further, the Bill does not address whether multiple schemes can, as a matter of law and structure, be housed within a single LLP.

The Bill is a significant step toward practically broadening the legal forms available for AIFs in India. However, the position remains unclear for multi-scheme AIFs, which currently derive much of their flexibility from the trust structure and its ability to support scheme-level segregation under a single AIF registration. In its present form, the proposed framework for AIFs to be set up as LLPs does not clearly facilitate a multi-scheme structure meaning that a fund manager opting to set up an AIF as an LLP may need to commit to a single-scheme AIF structure at the outset, a decision that can be deferred in the case of AIFs set up as trusts.

Accordingly, while the choice between a single-scheme and multi-scheme model will continue to depend on commercial, governance, liability and investor considerations, the viability of LLPs as a true alternative for multi-scheme AIFs will depend on further legislative changes or clarificatory guidance.

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