ALTERNATIVE INVESTMENT

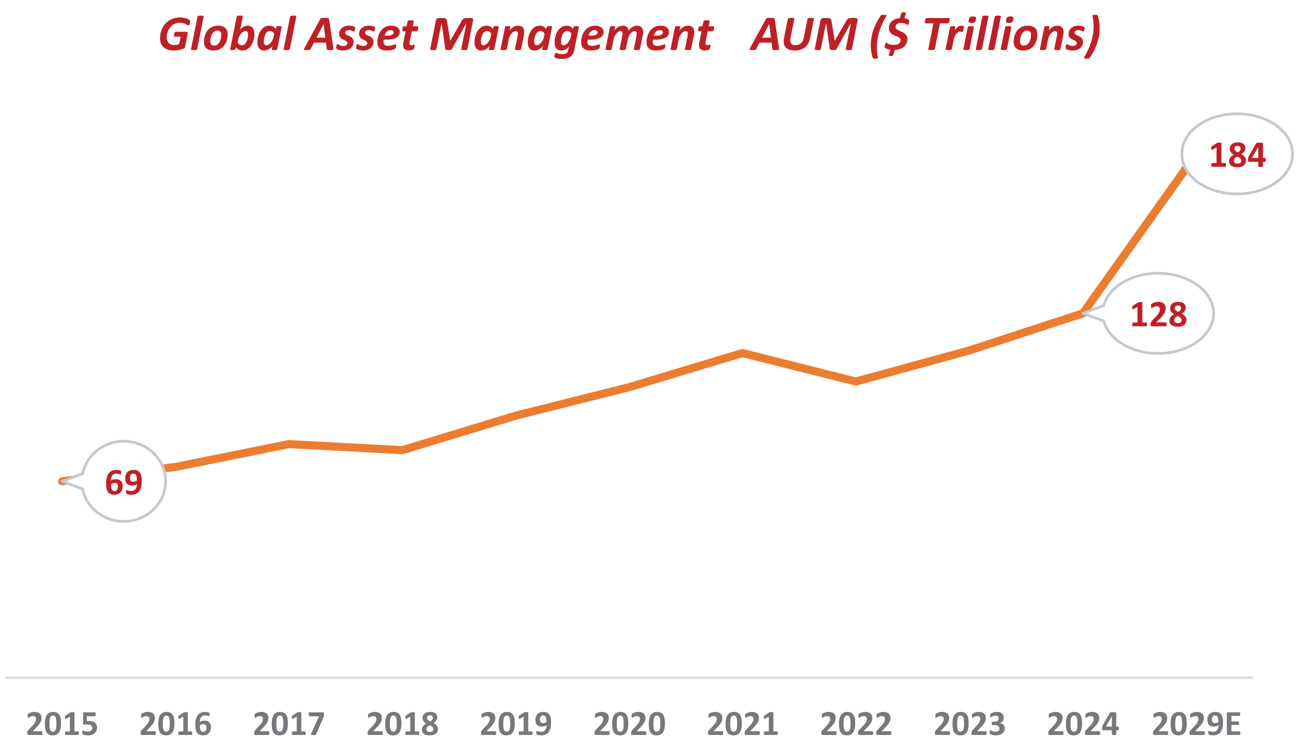
FROM CHOICE TO NECESSITY

COVER STORY

The Rise of Alternative Investments

The global investment landscape is at an inflection point today. Traditional equity and debt portfolios are no longer sufficient to navigate heightened volatility, rising interest rates, and evolving macroeconomic realities. As a result, alternative investments have rapidly transitioned from being optional diversifiers to strategic necessities for investors and asset managers alike. This story explores the global rise of alternatives, India's accelerating PMS and AIF ecosystem, category-wise trends, and the role of GIFT City IFSC in channelling cross-border capital.

Global Asset Management: AUM on a Steady Upward Trajectory



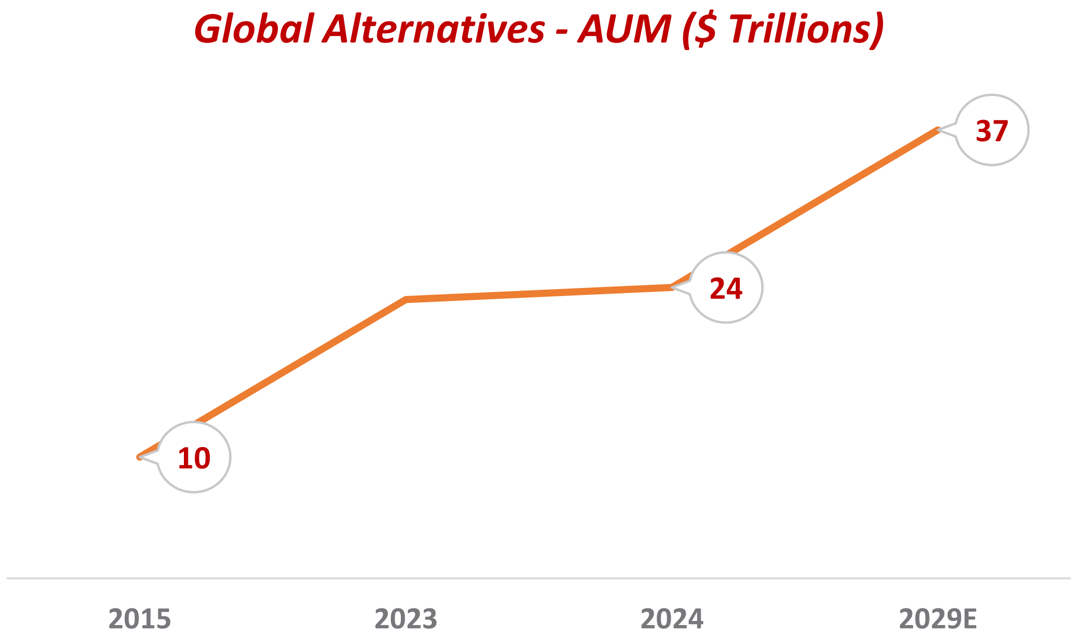
Source: BCG's Global Asset Management Report 2025 23rd Edition

Global Asset Management industry has witnessed remarkable growth over the past decade, with total Assets Under Management (AUM) expanding from $69 trillion in 2015 to $128 trillion by 2024. The momentum is expected to accelerate, with projections reaching $184 trillion by 2029, signalling a robust long-term growth trajectory for the industry.

This surge reflects multiple structural trends: rising global wealth, increasing participation in financial markets, and a growing preference for professionally managed investment solutions. Notably, the growth is not limited to traditional assets like equities and fixed income; alternative investments and private markets are capturing a larger share, driven by investor demand for diversification, enhanced returns, and uncorrelated strategies.

The data underscores that asset management is no longer just a mature, steady industry-it is evolving rapidly, with opportunities across geographies, asset classes, and innovative investment strategies. For investors, this expanding AUM universe highlights the importance of accessing both traditional and alternative avenues to construct resilient, future-ready portfolios.

Global Alternatives: Accelerating Growth and Mainstream Adoption



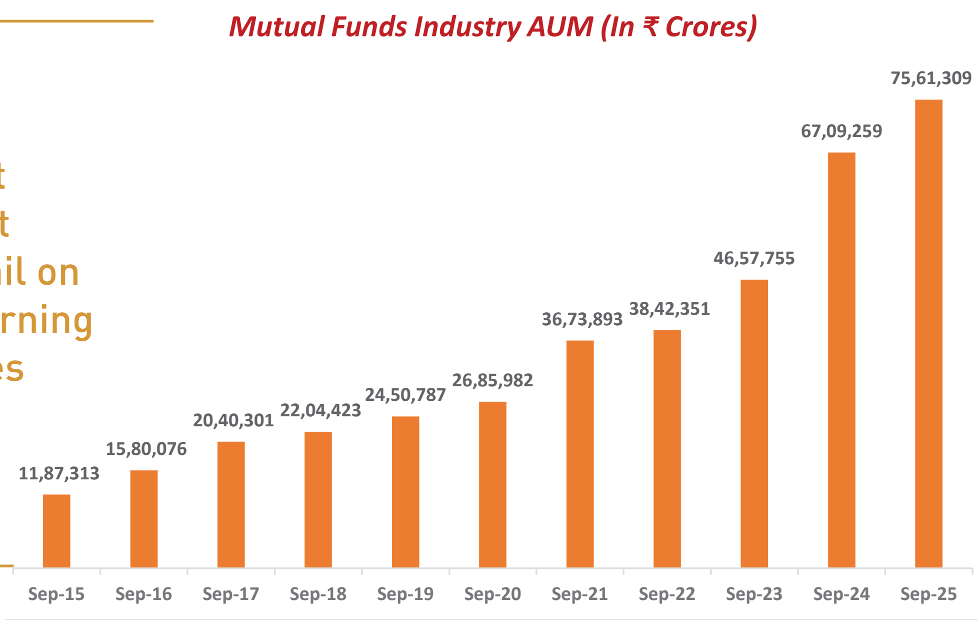
Source: BCG's Global Asset Management Report 2025 23rd Edition

Globally alternatives have emerged as a powerful growth engine within the broader asset management industry. As illustrated in the chart, Assets Under Management (AUM) in alternatives have grown significantly from $10 trillion in 2015 to $24 trillion in 2024, and are projected to reach an impressive $37 trillion by 2029.

This sharp upward trajectory reflects a structural shift in investor behaviour. Amidst market volatility, compressed yields, and rising demand for diversification, investors are increasingly turning to alternative strategies including private equity, private credit, infrastructure, hedge funds, and real assets as essential components of modern portfolios.

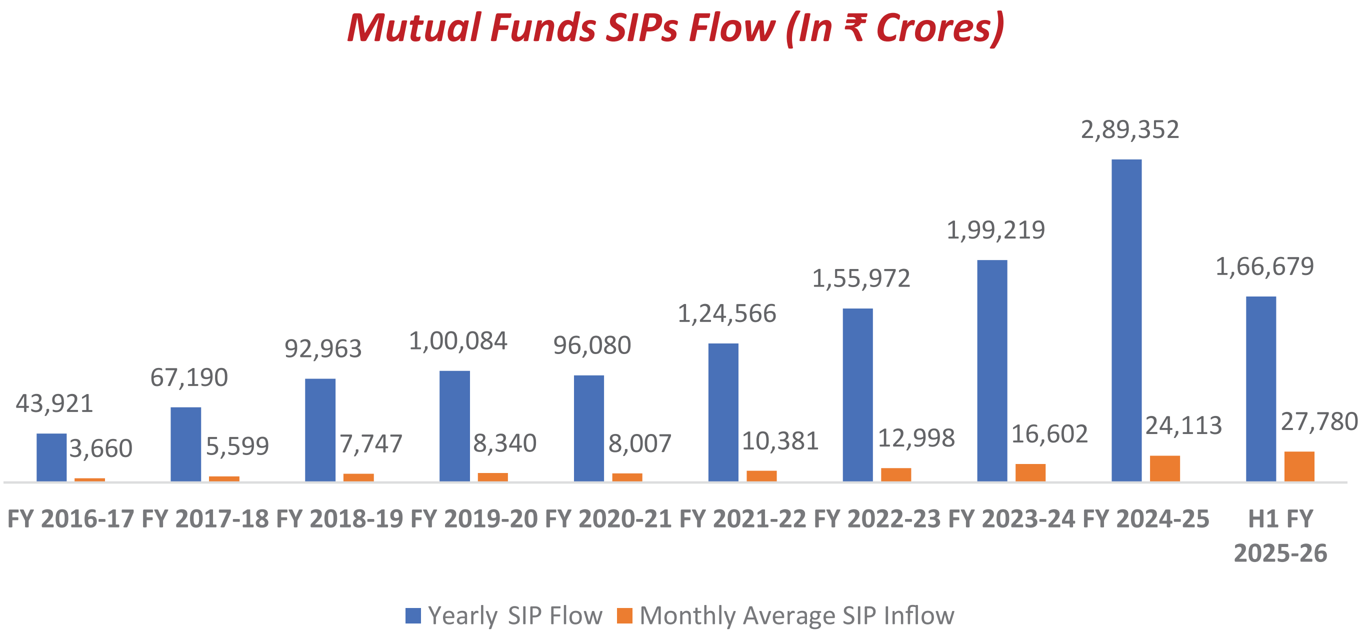
Notably, the pace of growth has accelerated post-2015, signalling stronger institutional and UHNI appetite and continued innovation in alternative investment vehicles. As alternatives move from niche to necessity, they are playing a central role in redefining wealth creation and portfolio resilience in the next phase of global asset management.

India's Asset Management Landscape: Retail on the Rise, HNIs Turning to Alternatives



Source: AMFI

India's mutual fund industry has experienced remarkable growth over the past decade, with Assets Under Management rising from ₹11.87 lakh crore in September 2015 to ₹75.61 lakh crore by September 2025 at a CAGR of 20.34%. This nearly six-and-a-half-fold increase reflects a significant transformation in the investment habits of Indian households and highlights the ongoing financialization of savings.



Source: AMFI

Driving this growth is the retail investor. Greater financial literacy, easy digital access, strengthened regulatory frameworks, and the widespread adoption of Systematic Investment Plans (SIPs) have fueled record levels of retail participation with the monthly flow reaching record high of ₹29,361 crores in September 2025. This trend represents a clear shift away from traditional investment avenues such as gold, real estate and other fixed income instruments, as more Indians turn to market-linked instruments for long-term wealth creation.

From Mutual Funds to Sophisticated Alternatives

While retail investors continue to power the growth of mutual funds, the landscape is evolving rapidly for High-Net-Worth Individuals (HNIs) and Ultra-HNIs (UHNIs). Having benefited significantly from the stock market rally through mutual funds over the past decade, many HNIs are now seeking greater portfolio customization, tax efficiency, and alpha generation—preferences that go beyond the standardized offerings of mutual funds.

This is leading to a clear transition:

- HNIs and UHNIs are increasingly allocating capital to Alternative Investment Funds (AIFs) and Portfolio Management Service (PMS).
- These vehicles offer access to Private Equity, Venture Capital, Long-Short Strategies, Structured Credit, SME Investing, Special Situations, Real Estate and high conviction investing—opportunities traditionally unavailable in retail-focused mutual funds.
- With growing ticket sizes and a maturing investor mindset, alternatives are becoming a natural progression for wealthier investors aiming to diversify beyond traditional Investments.

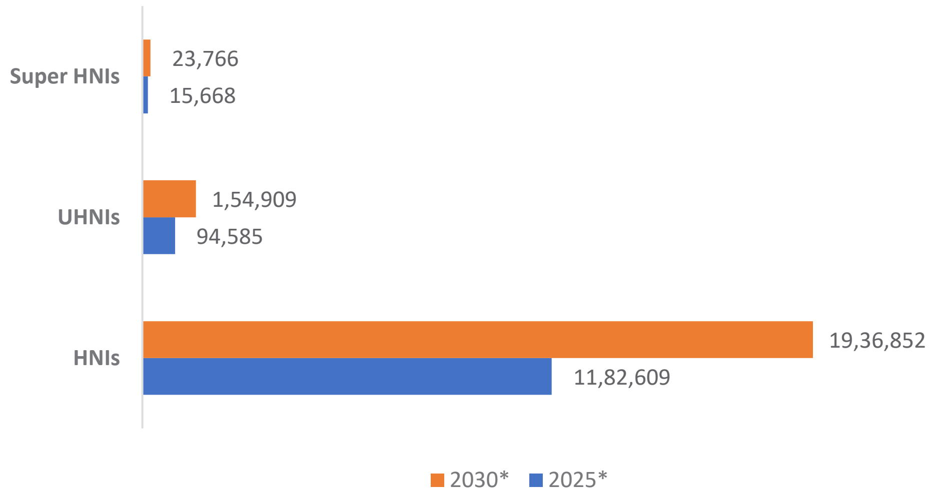
A Two-Tier Evolution of Indian Capital

India's asset management ecosystem is thus evolving into a two-tier structure:

- Retail investors continue to deepen their participation in mutual funds, which serve as the backbone of mass wealth creation.
- Affluent and seasoned investors are moving into bespoke strategies via AIF and PMS, marking the rise of a more sophisticated, alternatives-driven investment culture.

Rising Wealth: The Expanding Base of India's Affluent Investors

India's Wealthy Individuals Mix



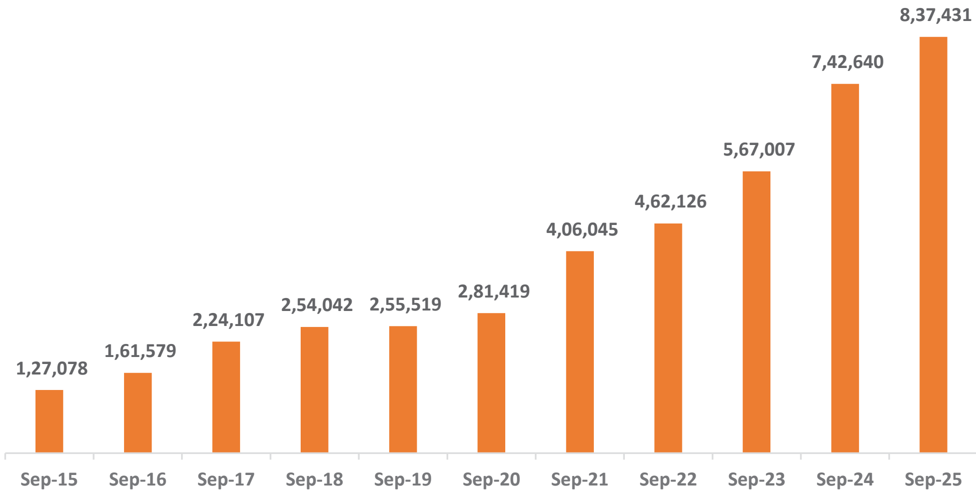
*Source: Knight Frank Wealth Reports, Credit Suisse Global Wealth Report & PMS Bazaar Estimates**

India's wealth landscape is expanding at a remarkable pace. By 2030, the number of High-Net-Worth Individuals (net worth $1 million) is projected to surge to 19.4 lakh, up from 11.8 lakh in 2025, while the UHNI population (net worth $10 million) is expected to cross 1.54 Lakh. Even the ultra-exclusive Super HNI segment (net worth $30 million) is set to grow sharply to over 23,000 individuals.

This explosive growth in affluent investors signals a structural shift in India's financial ecosystem. As these investors seek greater portfolio customization, risk diversification, and higher alpha, their investment appetite will naturally gravitate towards Portfolio Management Services and Alternative Investment Funds.

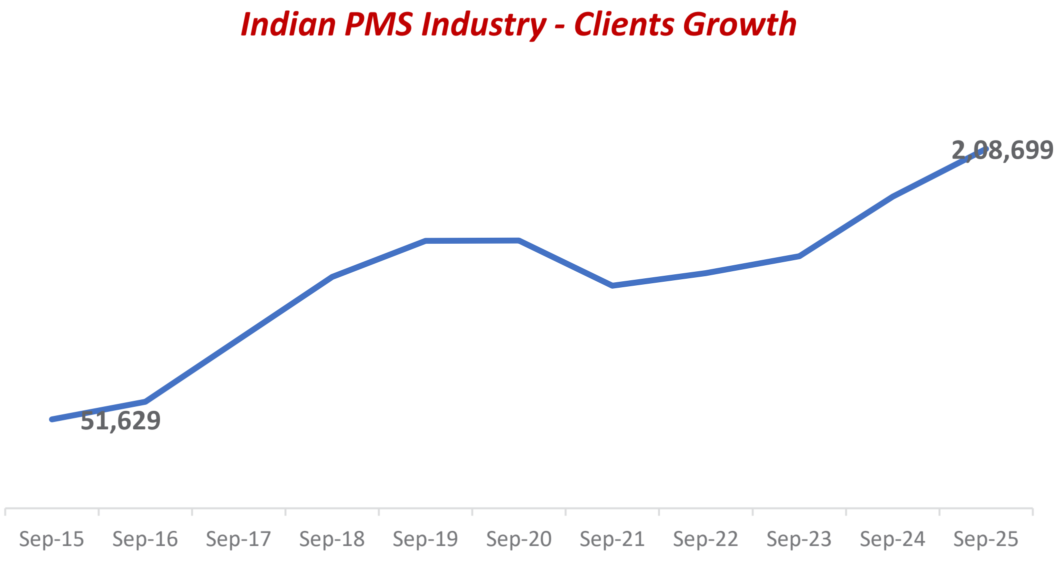
PMS Industry: Accelerated Growth Driven by Sophisticated Investors

PMS Industry AUM (In ₹ Crores)



Source: SEBI & The AUM is Excluding EPFO/PF Contribution and Co-investment & Advisory AUM

The Portfolio Management Services industry in India has seen impressive growth over the past decade, with AUM rising from ₹1.27 lakh crore in September 2015 to ₹8.37 lakh crore by September 2025, reflecting a robust 10-year CAGR of 20.75%. This surge highlights the increasing demand among High-Net-Worth Individuals (HNIs) for personalized and sophisticated investment solutions.

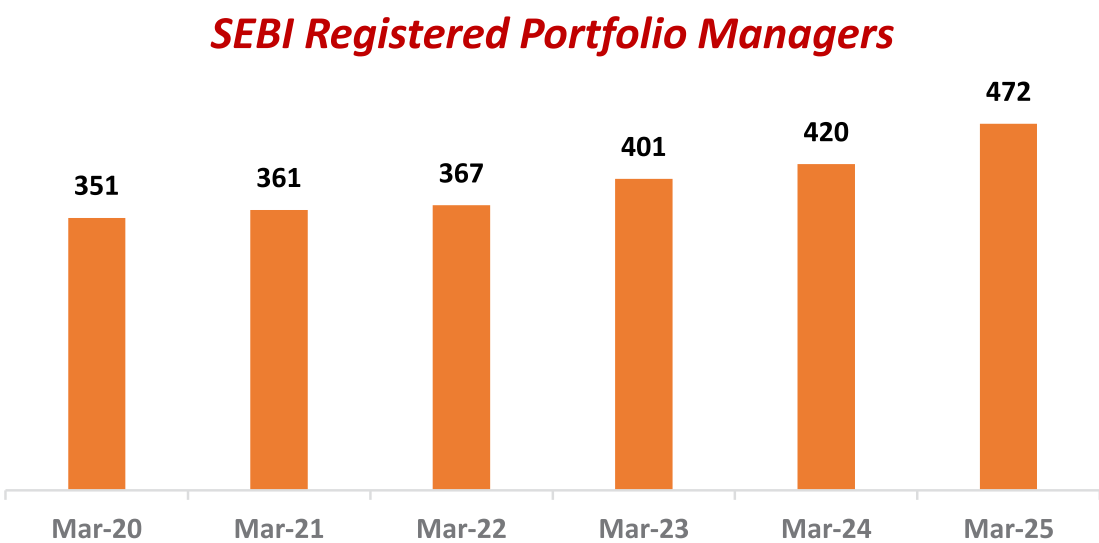


Source: SEBI & The Data is excluding Co-investment and Advisory Clients

As investors accumulate wealth often through mutual funds they seek greater control, transparency, and customization, which PMS offerings provide. While the industry experienced a temporary slowdown around FY20 due to market disruptions, Covid and an increase in ticket size (doubling from INR 25 Lakhs to INR 50 Lakhs), it rebounded strongly in the following years, propelled by improved market performance and fresh inflows.

The growing variety of strategies, including thematic, small-cap, and sector-focused portfolios, has further enhanced PMS's appeal to affluent investors. With rising financial awareness and wealth levels, PMS is increasingly becoming a preferred choice for those looking for active management, differentiated strategies, and potential alpha generation beyond conventional mutual funds.

Expanding the Universe of Portfolio Managers: Reflecting Industry Depth and Diversification

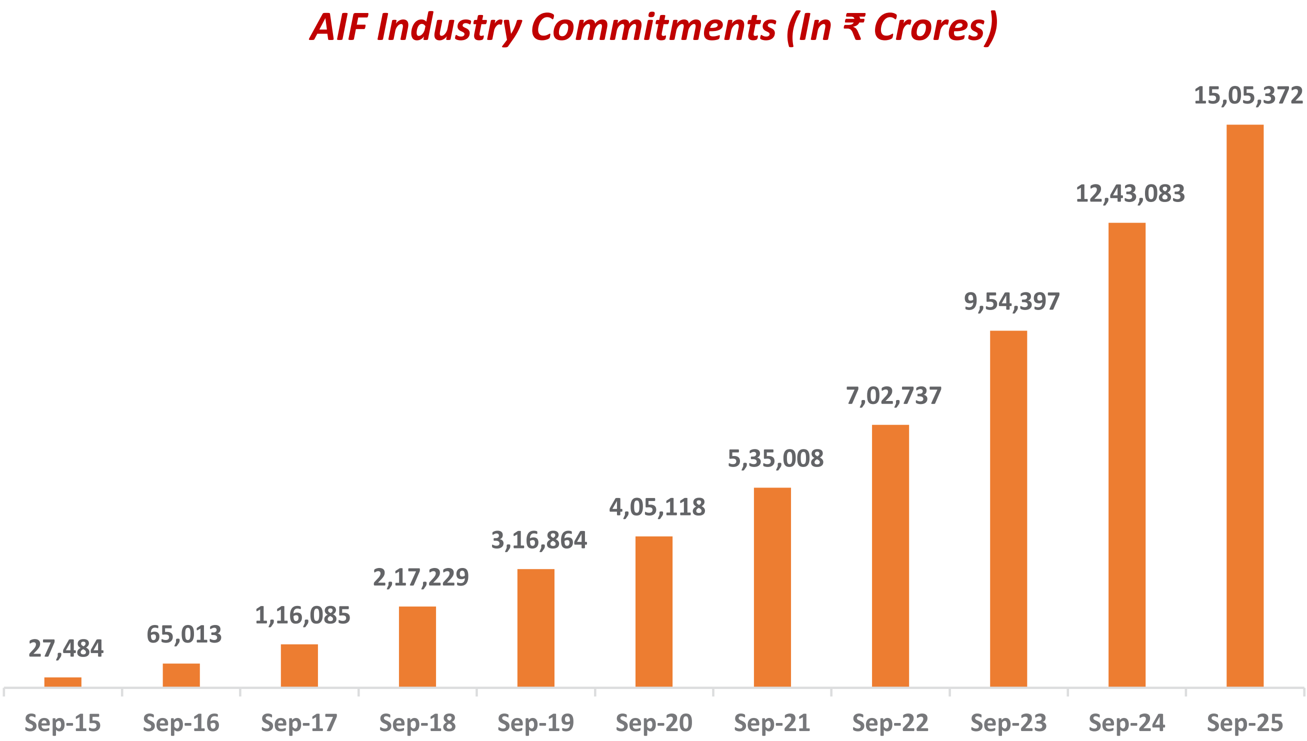


Source: SEBI Annual Reports

Alongside the sharp rise in AUM, the number of SEBI-Registered Portfolio Managers has increased steadily from 351 in March 2020 to 472 by March 2025 even though the industry has faced stringent regulatory requirement changes. This expansion reflects the deepening institutionalization of Indian PMS industry and the growing participation of both established financial houses and emerging boutique firms.

The rise is not merely numerical—it highlights the broadening diversity of strategies, philosophies, and risk frameworks now available to investors. From large-cap and multi-asset allocators to thematic, quant-based, and sector-focused specialists, the PMS landscape today offers a wide spectrum of differentiated investment approaches. This growth in professional management talent has also accelerated innovation in research, portfolio analytics, and risk control, reinforcing PMS as a dynamic and sophisticated wealth management avenue for India's affluent investors.

Alternative Investment Funds (AIFs): The Powerhouse of India's Private Market Growth



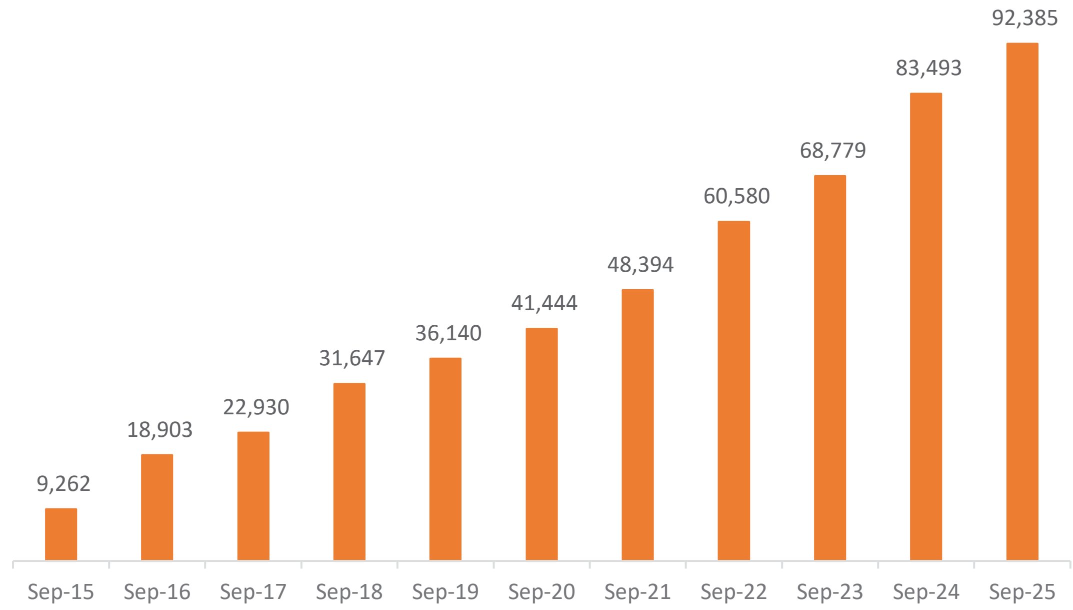
Source: SEBI

If PMS represents the rise of personalized investing, the Alternative Investment Funds industry exemplifies the institutionalization of India's alternative investment ecosystem. Over the past decade, AIF commitments have surged from ₹27,484 crore in September 2015 to ₹15,05,372 crore by September 2025, reflecting a staggering 10-year CAGR of 49.23%. This phenomenal growth highlights the increasing appetite among domestic and global investors for private equity, venture capital, private credit, and other structured opportunities beyond public markets.

The expansion has been particularly strong in Category II and Category III AIFs, driven by sophisticated HNIs, family offices, and institutional investors seeking differentiated, risk-adjusted returns. Strong regulatory frameworks, evolving fund structures, and the emergence of specialized fund managers have further fortified the ecosystem. As India continues to establish itself among the fastest-growing private capital markets globally, AIFs are no longer peripheral, they are driving the next wave of wealth creation, innovation, and capital formation in the Indian economy.

Breaking Down India's AIF Boom: A Category-Wise Perspective

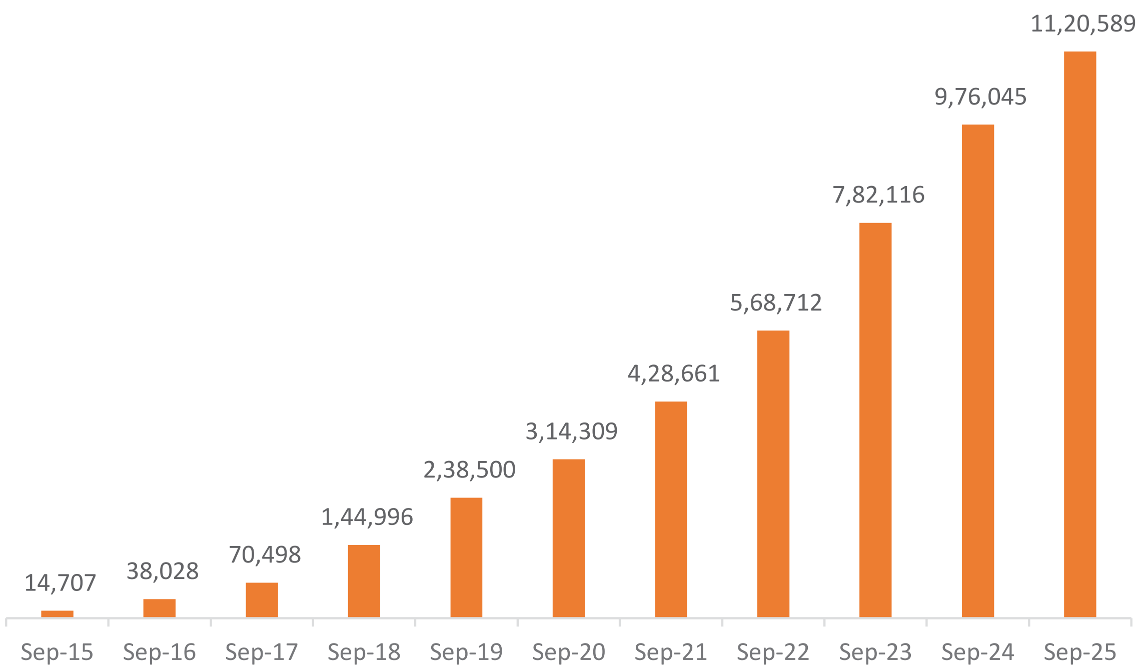
AIF Commitments - Category 1 (In ₹ Crores)



Source: SEBI

From June 2015 to June 2025, Category I AIFs targeting Infrastructure, SMEs, Social Ventures, and Venture Capital grew from ₹9,262 crore to ₹92,385 crores, marking nearly a tenfold increase (with a CAGR of 25.86%). This growth reflects investors' rising preference for long-term, early mover, socially aligned, and tax-efficient investment opportunities.

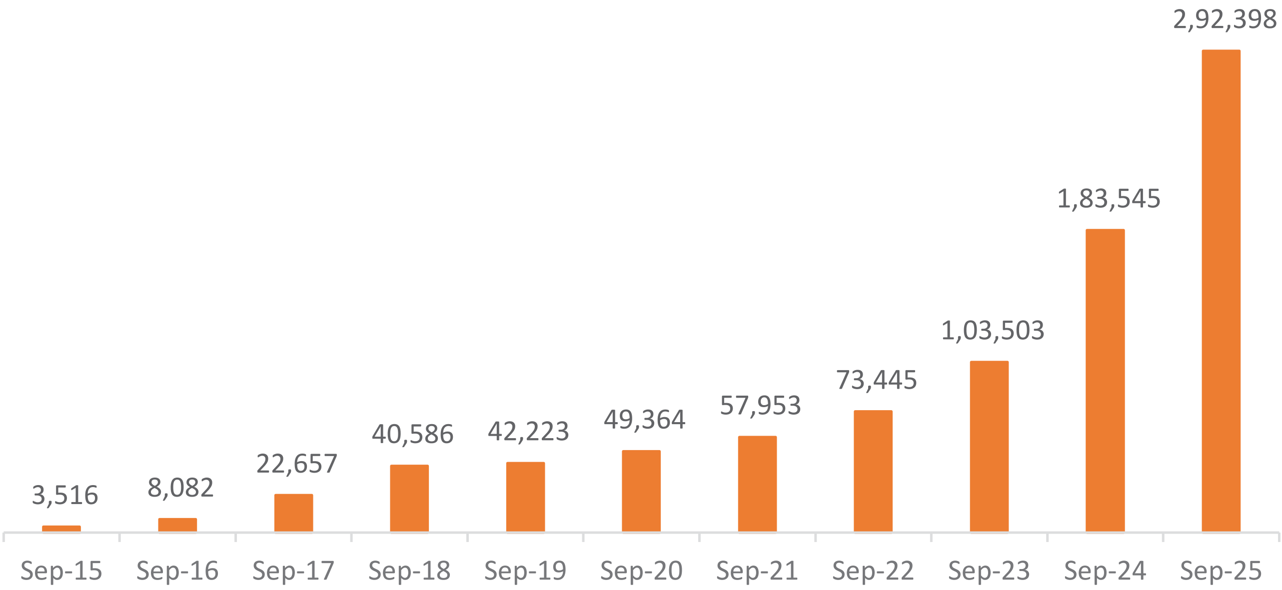
AIF Commitments - Category 2 (In ₹ Crores)



Source: SEBI

Category II AIFs, encompassing private equity, private credit, real estate and fund-of-funds structures, experienced the most dramatic growth, rising from ₹14,707 crore in September 2015 to ₹11,20,589 crores by September 2025. This reflects a remarkable 10-year CAGR of 54.24%, highlighting the growing demand among sophisticated HNIs, family offices, and institutional investors for diversified, high-return strategies beyond public markets.

AIF Commitments - Category 3 (In ₹ Crores)

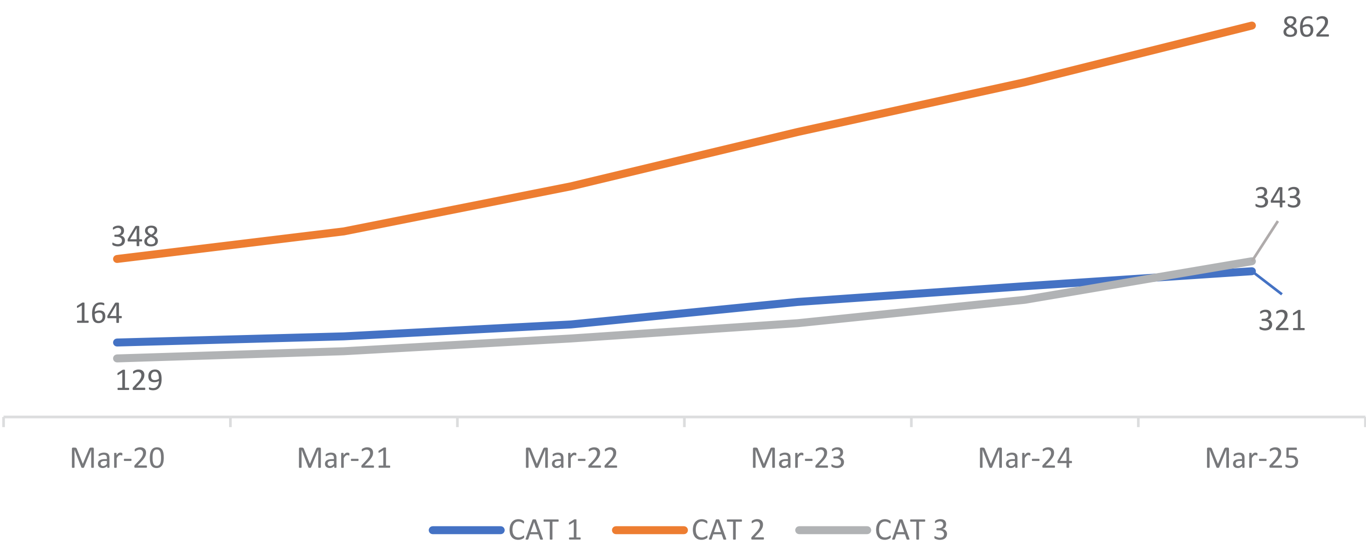


Source: SEBI

Meanwhile, Category III AIFs, which include hedge funds and other market-linked products, expanded from ₹3,516 crore in September 2015 to ₹2,92,398 crores by September 2025, reflecting a stellar 10-year CAGR of 55.59%. This surge underscores the growing investor interest in flexible, high-risk, high-reward strategies aimed at absolute returns and tactical portfolio management.

Rising Number of AIFs: Expanding Choice and Depth for Investors

SEBI Registered Alternative Investment Funds



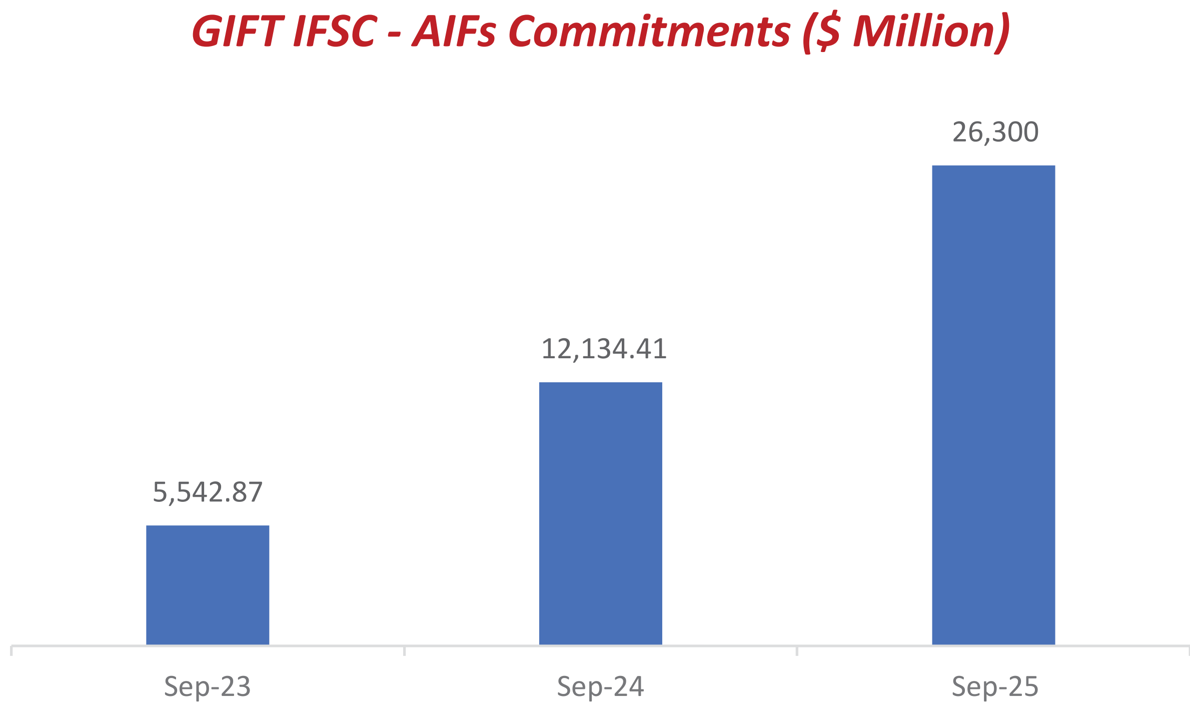
Source: SEBI Annual Reports

The growth of AIFs in India is not just reflected in commitments but also in the number of funds across categories, highlighting the increasing depth and diversity of the ecosystem. From March 2020 to March 2025, the number of registered AIFs has risen significantly: Category I funds grown at 14.38% CAGR, Category II funds grown at CAGR of 19.89%, and Category III has grown at much faster pace of 21.6% CAGR. This surge illustrates the broadening spectrum of alternative investment opportunities, catering to varied risk-return profiles and investor preferences.

The rise in fund numbers has fueled competition and innovation, encouraging fund managers to develop differentiated strategies across private equity, venture capital, structured credit, hedge funds, and real assets. Today, India's AIF landscape offers a mature and vibrant platform, empowering High-Net-Worth Individuals, family offices, and institutional investors to access bespoke, non-correlated investment avenues that complement traditional portfolios.

GIFT City: Enabling Seamless Cross-Border Capital Flows

As India's AIF and PMS ecosystem continues its robust growth, GIFT City (Gujarat International Finance Tec-City) IFSC has emerged as a critical gateway for both inbound and outbound capital flows. By offering world-class financial infrastructure, favorable regulatory frameworks, and tax-efficient structures, GIFT IFSC enables domestic investors to access global markets while allowing international investors to seamlessly participate in India's high-growth market.

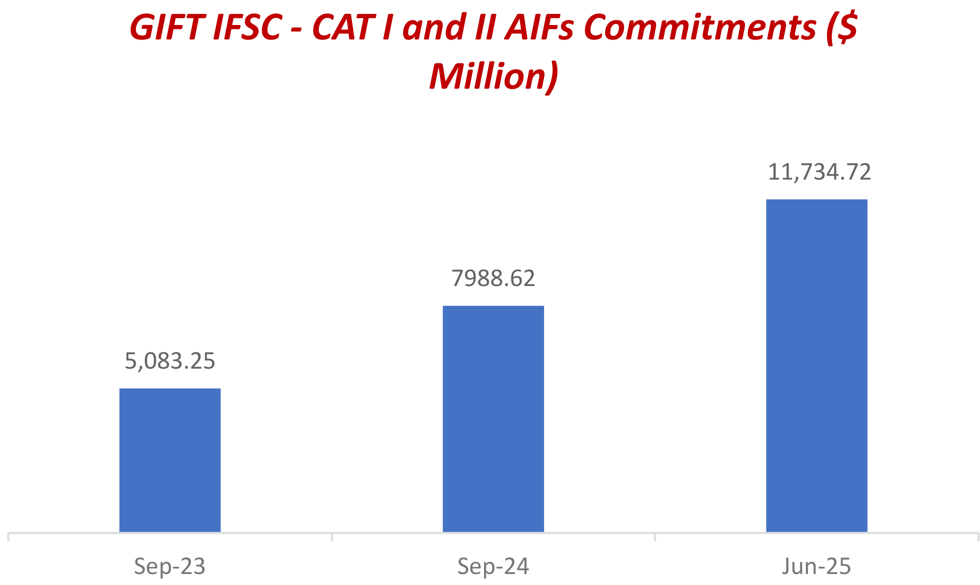


Source: IFSCA & Fund Management in GIFT IFSC Brochure

Total commitments raised through GIFT IFSC have surged from $5,542.87 million in September 2023 to $26,300 million by September 2025, more than tripling in just under two years. This remarkable growth highlights strong confidence in a transparent and regulated environment. By facilitating cross-border inflows and outflows across listed, private equity, private credit and other alternative strategies, GIFT IFSC not only broadens the investor base but also enhances liquidity and portfolio diversification.

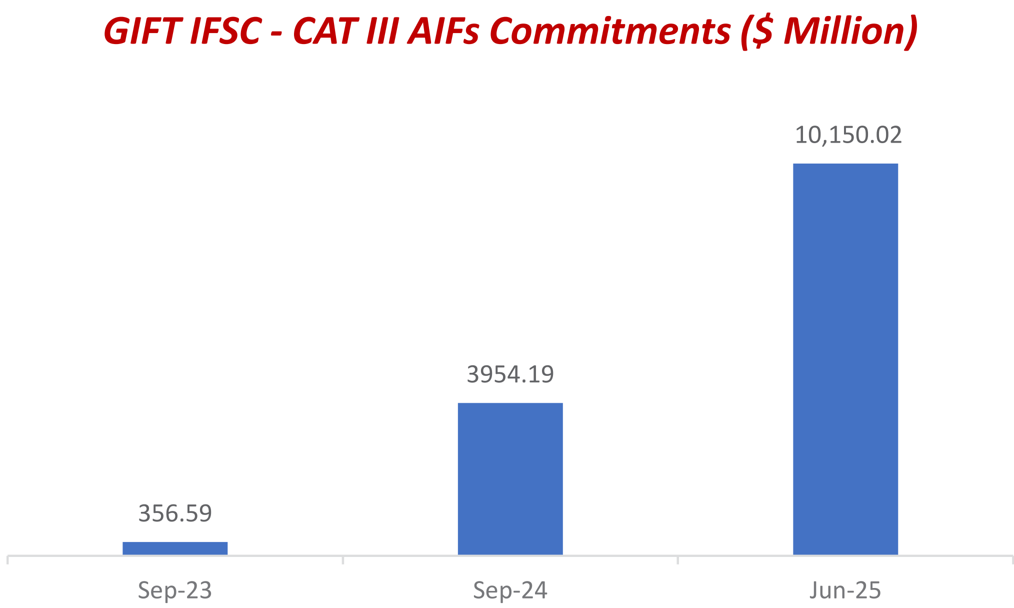
The synergy between India's rapidly expanding AIF market and GIFT IFSC's global connectivity is creating a new paradigm for private markets, positioning India as a dynamic, globally integrated hub for alternative investments that offers both scale and sophistication.

AIF Commitments at GIFT City: Venture Schemes and Categories Breakdown



Source: IFSCA

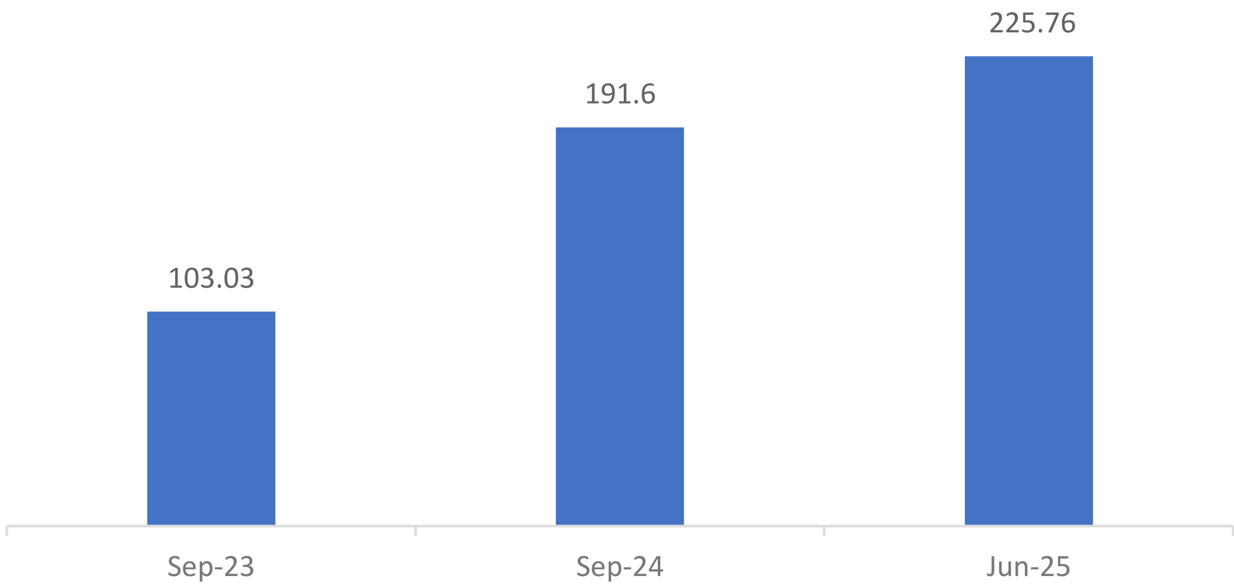
The growth of India's alternative investment ecosystem is clearly reflected in the commitments raised through GIFT City IFSC, with notable expansion across Venture Capital Schemes and AIF categories I, II, and III. Category I and II AIFs, which include infrastructure, SME, social ventures, private equity, and debt strategies, saw commitments rise from $5,083.25 million in September 2023 to $11,734.72 million by June 2025, more than doubling in just under two years.



Source: IFSCA

Category III AIFs, which cover hedge funds and market-linked products, experienced an humongous growth, surging from $356.59 million in September 2023 to $10,150.02 million in June 2025, mostly aided through feeder funds, reflecting increasing investor appetite for long only, long short, high-risk, high-return strategies and tactical portfolio approaches.

GIFT IFSC - Venture Capital Schemes Commitments ($ Million)

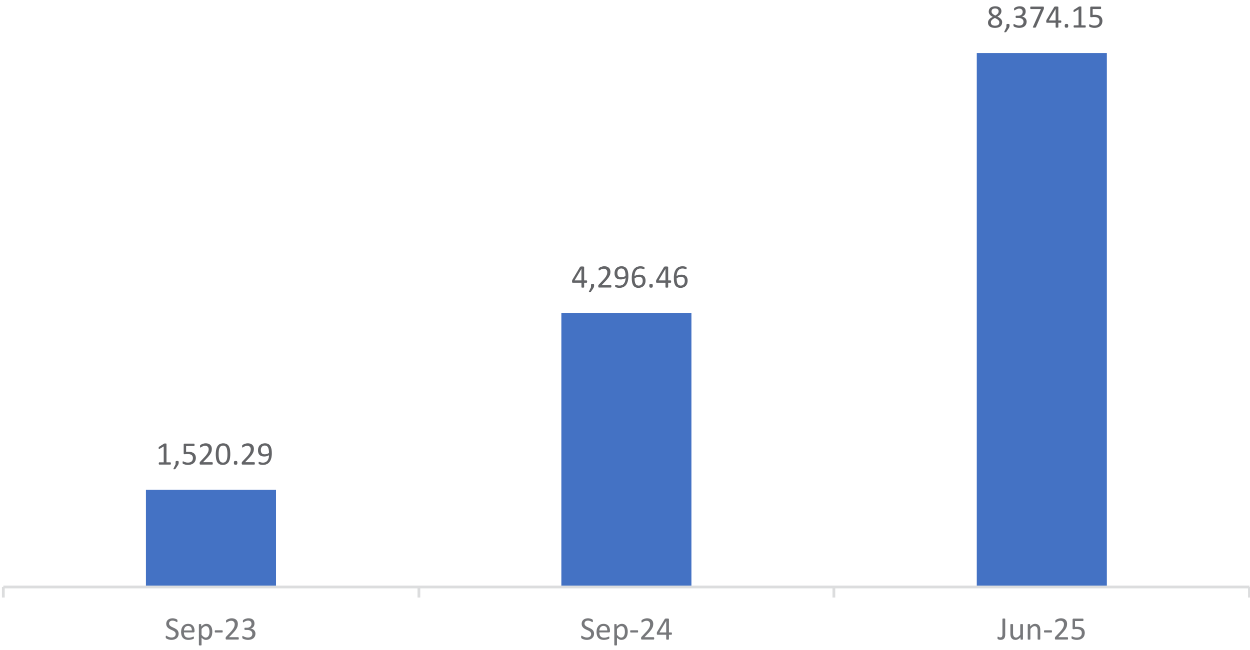


Source: IFSCA

Meanwhile, Venture Capital Schemes (including Angel Schemes) have also shown strong momentum, growing from $103.03 million in September 2023 to $225.76 million in March 2025, highlighting a rising interest in early-stage investing and high-growth entrepreneurial investment opportunities.

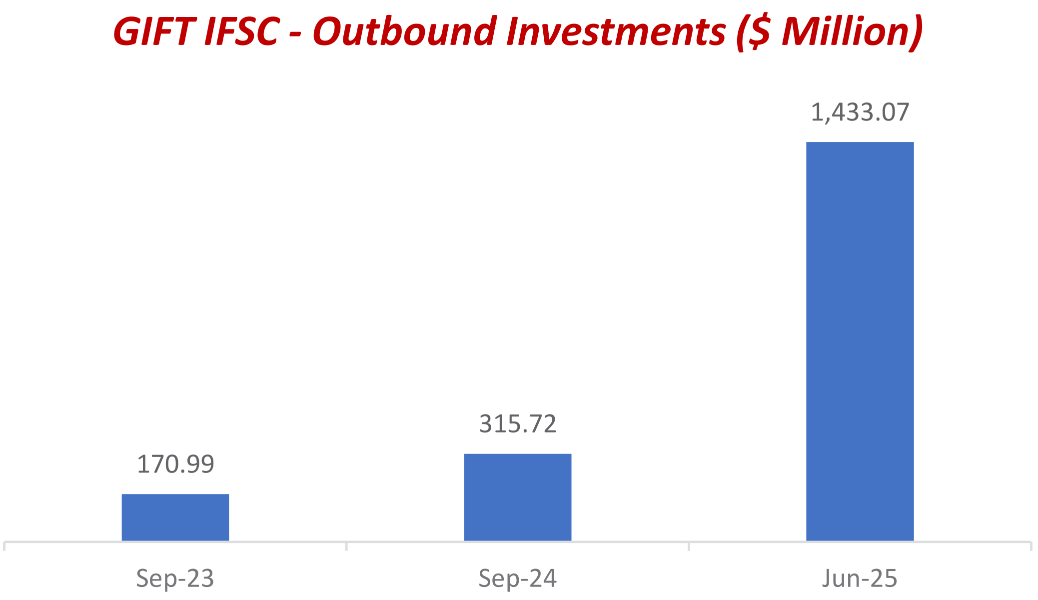
Tracking Inbound and Outbound Investments Across AIF Categories at GIFT IFSC

GIFT IFSC - Inbound Investments ($ Million)



Source: IFSCA

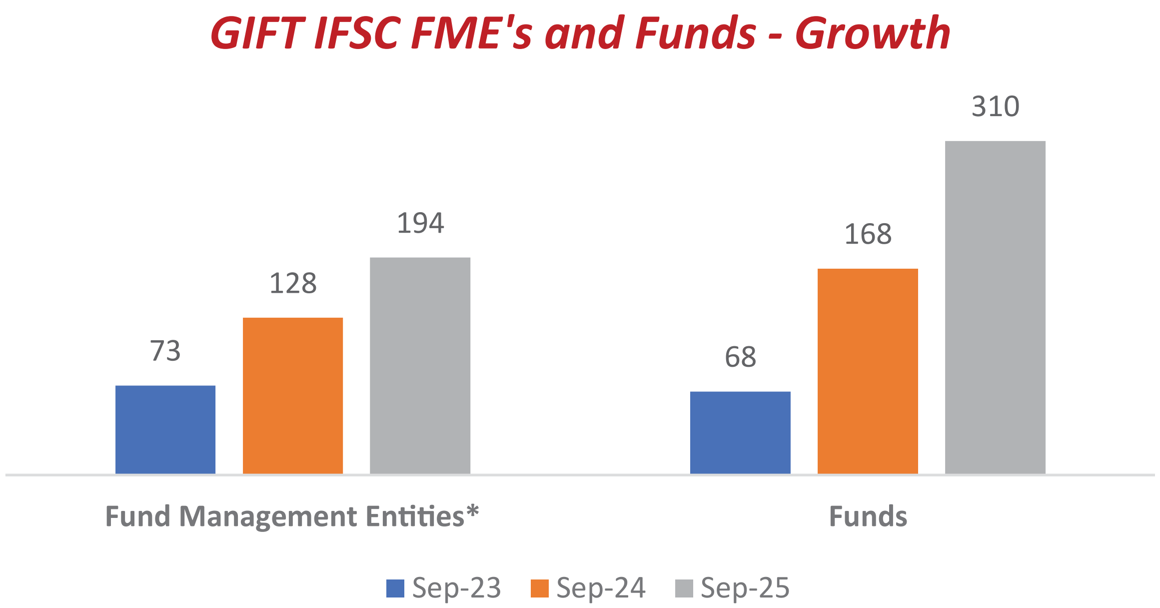
GIFT City IFSC has emerged as a dynamic hub for cross-border investments, facilitating both inbound capital into India and outbound investments to global markets. Inbound commitments have shown remarkable growth, rising from $1,520.29 million in September 2023 to $8,374.15 million by June 2025, reflecting strong international & NRI investors' confidence in India's high-growth alternative investments.



Source: IFSCA

At the same time, outbound investments through GIFT IFSC made by NRIs, global investors, and resident Indians have also accelerated, growing from $170.99 million in September 2023 to $1433.07 million in June 2025. This highlights how domestic and international investors are leveraging GIFT IFSC to access global investment opportunities in a seamless, regulated, and tax-efficient environment.

Scaling New Frontiers: The Rapid Rise of Fund Managers and Strategies at GIFT City



*Source: IFSCA & Fund Management in GIFT IFSC Brochure *Excluding in-principle approvals*

GIFT City has rapidly emerged as a preferred global destination for fund management, reflecting India's growing prominence in international finance. The number of Fund Management Entities (FMEs) has more than doubled from 73 in September 2023 to 194 by September 2025, while the number of registered funds surged from 68 to 310 over the same period.

This remarkable growth underscores GIFT IFSC's evolving ecosystem offering globally competitive taxation, liberal fund structuring norms, and ease of cross-border capital movement. The progressive regulatory framework by the International Financial Services Centres Authority (IFSCA) and increasing participation from both domestic and offshore managers are positioning GIFT City as a gateway for India-focused strategies for global investors.

As more fund houses, family offices, and institutional investors set up operations, GIFT City is steadily transforming into a vibrant hub for alternative investments and global asset management.

Conclusion: The Future is Alternatives

The rise of alternative investments marks a structural transformation in the global and Indian wealth management landscape. What began as a niche pursuit of diversification has now evolved into a mainstream necessity, driven by changing macroeconomic realities, expanding investor sophistication, and the search for sustainable alpha. As traditional equity and debt markets face mounting volatility and shrinking return potential, alternatives-spanning private equity, private credit, infrastructure, venture capital, real estate, SME Investing and hedge fund strategies are emerging as vital components of balanced portfolios.

India's story is particularly compelling. With its fast-growing base of affluent investors, strong regulatory frameworks, and deepening capital markets, the country stands at the cusp of a new wealth creation era powered by PMSes and AIFs. Simultaneously, GIFT City IFSC is redefining India's global financial connect, enabling seamless cross-border fund flows and positioning India as a key hub in the global alternatives map.

As capital, innovation, and investor intent converge, alternatives are no longer just complements-they are central pillars of modern portfolio construction. The decade ahead will belong to investors who embrace this evolution, harnessing alternatives not merely for outperformance, but for resilience, relevance, and long-term wealth creation in a dynamic world.