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PROMOTING ALTERNATE CAPITAL ECOSYSTEM



CAT III Funds:

Navigating Resilience and Achieving Remarkable Growth

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Foreword



Rajat Tandon
President, IVCA

Today, India finds itself at the heart of an extraordinary investment and wealth creation phase, poised to spearhead the next wave of economic prosperity in the East, and the globe at large. This surge in investable wealth is fuelled by a dynamic financial ecosystem, consistent growth in the country's wealthy cadre, increasing financialization of savings, and robust economic growth.

India's domestic economy is anticipated to rank among the world's top three by GDP before the decade concludes, even as its wealthy populace is growing at an accelerated pace, making this an ideal moment to further the innovation already apparent across the country's bevy of investment vehicles and strategies.

In this backdrop, Alternative Investment Funds have, slowly yet consistently, risen to the top as the vehicle of choice, especially for ultra- and high-net-worth individuals, given the combination of differentiated exposure and optimal returns. AIFs have evolved into a central feature of the domestic financial sector, indicating significant growth and attracting considerable interest, and are now poised to surpass traditional investment options, ushering in a new era of dynamic and flexible investment opportunities.

In particular, Category III funds have experienced a notable surge in new fund launches in the fiscal year 2024, and are gaining popularity due to their innovative approach, offering investors access to a diverse range of previously unavailable solutions to diversify portfolios, manage volatility, and achieve consistent returns. The progressive regulatory framework in India enhances this appeal by promising better pricing and fostering sustainable growth driven by investor demand and continuous product innovation. Indeed, SEBI's regulations for Category III AIFs allow significant room for creative offerings across asset classes, enabling these funds to establish a risk profile distinct from traditional funds, thereby appealing to HNIs looking to enhance returns while diversifying their portfolios.

As we traverse the multifaceted AIF landscape, several key aspects must be addressed to unlock future potential. Firstly, Cat III AIFs should be recognized for their role in offering diversified portfolios through various asset classes and strategies, catering to HNIs, UHNIs, and institutional investors.

Further, a comprehensive digitization of the AIF ecosystem is essential, enabling data synchronization, standardized reporting, and efficient investor onboarding. Dedicating a portion of investor awareness budgets to education can also significantly benefit the industry, ensuring that both investors and relationship managers are well-informed. Finally, establishing a unified repository for industry communication, akin to AMFI, will enhance clarity and cohesion even as evaluating funds based on their adherence to projected returns, rather than standard benchmarks, will provide more accurate performance assessments, ensuring trust and transparency in the industry.

As the AIF ecosystem prepares itself for a robust growth journey ahead, thereby building sustainable wealth for the country, this report promises to offer nuanced insights into the evolving landscape, its strengths and weaknesses, and the measures that can optimally augment its effectiveness.

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Executive **Summary**

India is at the cusp of accelerated transformation as it positions itself to pole vault its growth curve and ascend to a position of dominance in the global economic order. While this has myriad ramifications for the country on multiple fronts, one that needs to be underscored is the elevation of its investment landscape with both demand and supply dynamics conflating to create a fecund environment for exponential growth. Within this landscape, Alternative Investment Funds (AIFs) are playing a critical role - acting as conduits for the optimal allocation of capital, harnessing opportunities currently prevalent in the ecosystem, and holistically catering to the nuanced needs of wealthy investors. Its growing appeal and increasing acceptance as an investment vehicle of choice is evidenced by the growth witnessed by the industry across the size and number of funds and strategies that have been launched under the AIF umbrella over the last 5-7 years.

A bright future: The AIF industry is expected to continue riding the growth momentum with **~60%** respondents estimating the industry to grow at **> 20%** CAGR, over the next 5-years. Further, commitments raised by Category III (CAT III) AIFs are expected to grow to **₹2.5 Lakh Cr** by 2028 with top players planning to cumulatively raise at least **₹60,000 Cr** over the next 2 years. As multiple growth levers fall in place, the industry has the potential to exceed consensus growth expectations and create exponential value for ecosystem stakeholders.

A paradox and an enabler: While a host of factors are conflating to boost industry growth, one of the key drivers has been the growing wealth and the number of wealthy in the country. This segment of investors have nuanced portfolio requirements some of which can be optimally catered to by AIFs. To that extent, increased investments by this segment of investors will continue to enable industry growth. However, paradoxically, despite the seemingly obvious value proposition of AIFs, the investment solution itself continues to reside in the 'supply push' zone rather than the 'demand pull' zone. **We expect these dynamics to transition from 'push' to 'pull' in the next 5 years.**

No half measures: One of the key USPs of the CAT III segment is the ability of funds in this category to innovate and implement agile strategies that can optimally leverage market opportunities. **Within this wider universe, absolute return strategies and long only funds find greater favour amongst investors.** The former's focus on generating positive returns by deploying unconventional strategies that include derivatives, arbitrage, leverage, etc., and the latter's ability to be flexible and invest across market capitalisations has attracted investor capital.

Promises need to be sacrosanct: The proliferation of myriad investment products, available across the risk-return spectrum, means that investors today are spoilt for choice. At the same time, investor requirements are becoming increasingly nuanced, precipitating the need for solutions that offer enhanced risk adjusted returns that can help in portfolio diversification while boosting returns. Thus, **AIF manufacturers must deliver on their promise of better risk adjusted returns in order to maintain investor confidence and capital.**

Enabling regulations: So far, the regulator has played a catalytic role in the growth of the AIF industry, proactively establishing guardrails that protect investor interest while leaving room for innovation. While enabling regulations will continue to boost industry growth, they will particularly play a bigger role in giving a fillip to the prosperity of CAT III AIFs - this is especially pertinent given the many possibilities for innovation under this category.

Industry demands tax clarity and tax parity: It is no secret that the current taxation structure puts CAT III funds, especially long short funds, at a disadvantage. Resolution on this front will act as a game changer for the industry, bringing more investors into the fold of CAT III funds. **From that perspective, GIFT City offers a ray of hope and a level playing field to CAT III AIFs.**

Chapter 1:

Partaking in the India growth story through **Alternative Investment Funds**

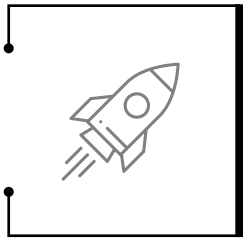


India is at the cusp of unprecedented growth as a host of enabling factors converge to give wings to the India growth story. As the country powers ahead, it will inevitably engender myriad opportunities for wealth creation. This narrative is already taking shape as evidenced by the performance and growth of various asset classes. Whether it is the almost 18% returns generated by the Nifty in 2023[1] or the formidable growth witnessed by the real estate sector which is expected to touch a market size of $1.3 trillion (13.8% of projected GDP) by FY 2034 and $5.17 trillion (17.5% of projected GDP) by 2047[2], it is evident that there is potential to create wealth on all fronts.

In the backdrop of such a fecund landscape, **Alternative Investment Funds (AIFs) are emerging as an ideal vehicle to partake in the India growth story** and create portfolios that can meet the nuanced needs of High Networth Individual (HNI) and Ultra High Networth Individual (UHNI) investors. Their appeal as an investment vehicle of choice is evidenced by the sharp growth witnessed by the industry in the last decade.

Over the past decade, AIFs in India have emerged as a focal point in the financial landscape, exhibiting remarkable growth and garnering considerable attention. In just a decade, the AIF industry has witnessed a **10 fold increase in Assets Under Management (AUM) with total commitments soaring to ₹11.3 Lakh Cr,** as of March 2024. This exponential growth trajectory positions AIFs to outpace conventional investment avenues and heralds a new era of dynamic and agile investment options. Correspondingly, the number of funds launched has witnessed a **13% CAGR over 5 years to reach 1306 (as of March 2024)**.

In terms of funds launched, CAT I funds witnessed a significant CAGR of 11% over 5 years and 42% over 3 years, reflecting robust investor interest and confidence in this category. Meanwhile, CAT II funds demonstrated consistent growth with a CAGR of 15% over 5 years and 33% over 3 years, reaffirming their attractiveness for investors seeking diverse investment opportunities. CAT III AIFs also boasted a CAGR of 8% and 52% over the 5 year and 3 year periods, respectively.

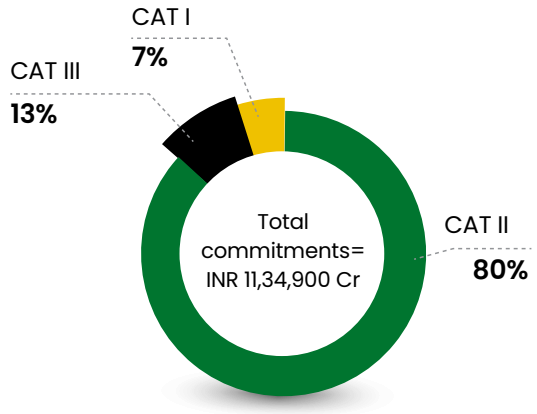


Notably, CAT III is the only category that has seen a significant increase in the number of new funds launched in FY 24.

1. www.nseindia.com
2. Confederation of Real Estate Developers' Association (CREDAI)

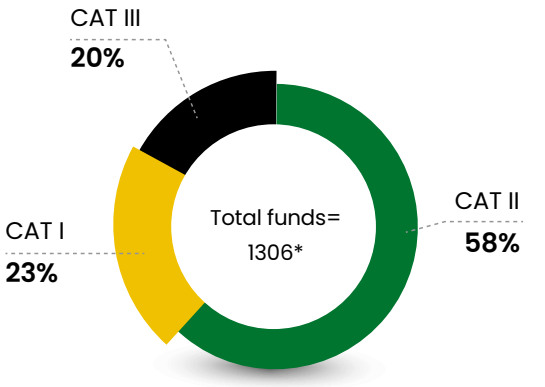
Exhibit 1.1

Category-wise commitments raised (INR Cr)



	CAT I	CAT II	CAT III
Commitments raised (INR Cr)	76,865	9,12,903	1,45,132

Category-wise number of funds launched (FY)

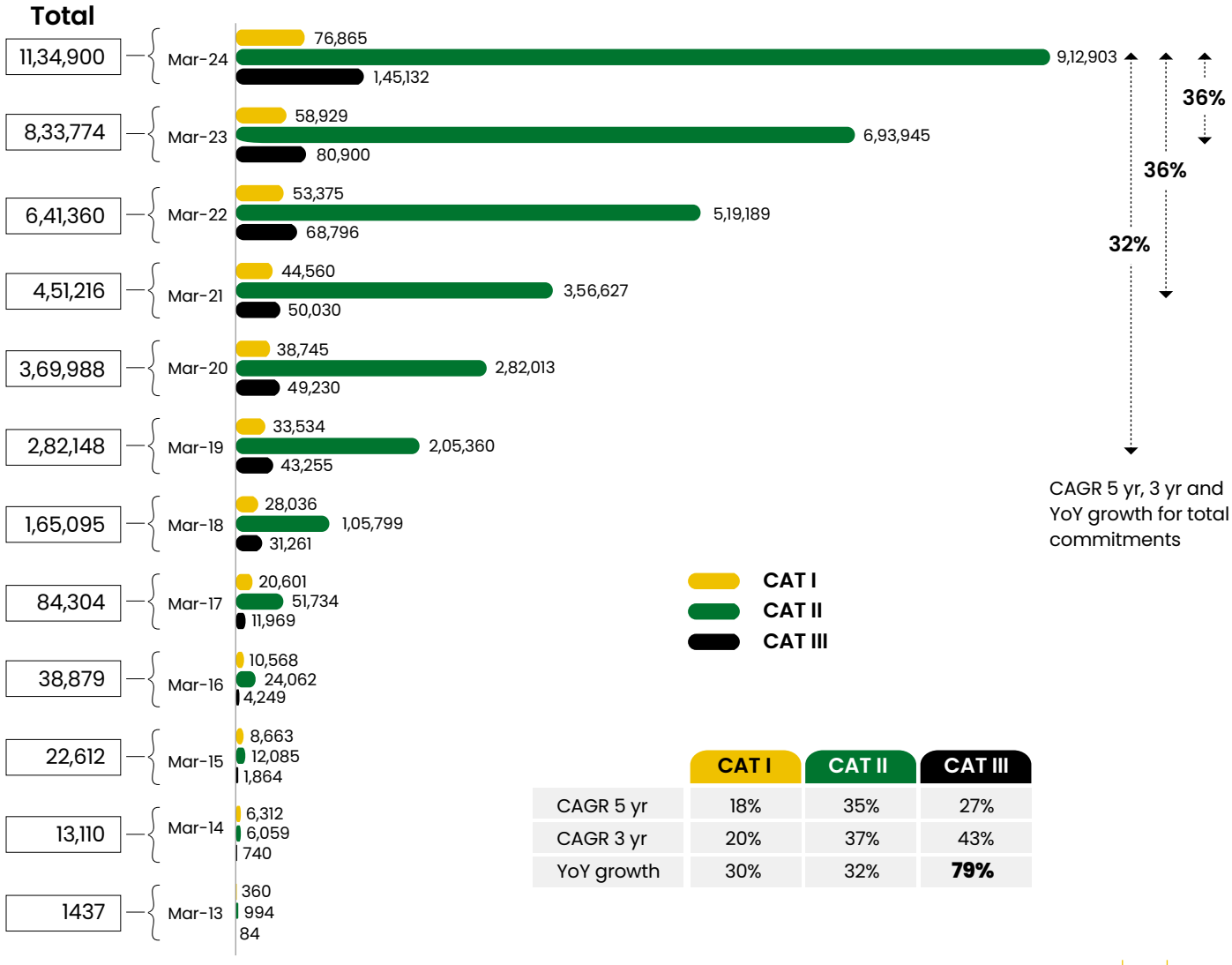


	CAT I	CAT II	CAT III
Number of funds	294	749	257

Source: SEBI | Commitments data as on 31st March 2024 | Number of funds data as on 31st March 2024 | *6 belong to undefined category

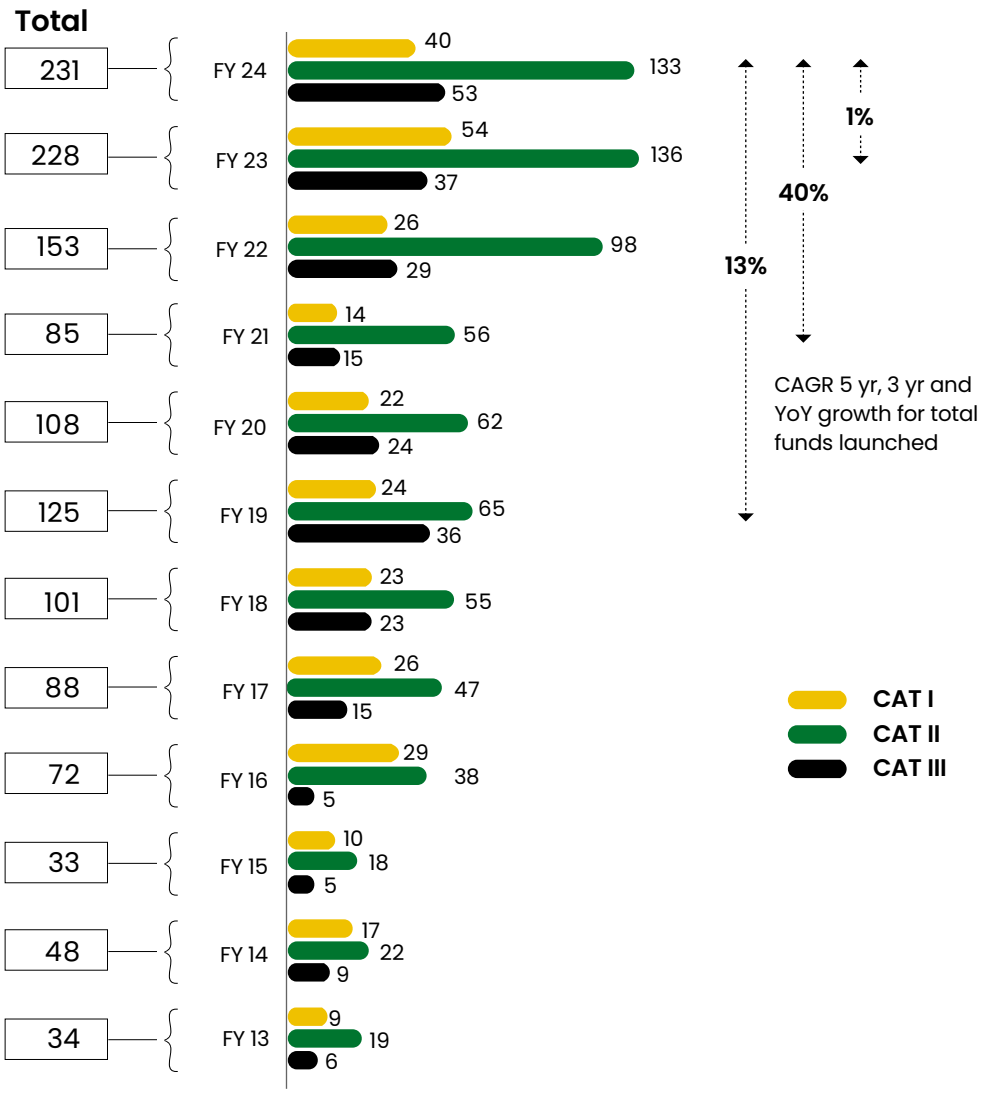
Exhibit 1.2

Category-wise commitments raised (INR Cr)



	CAT I	CAT II	CAT III
CAGR 5 yr	18%	35%	27%
CAGR 3 yr	20%	37%	43%
YoY growth	30%	32%	**79%**

Category-wise number of funds launched (FY)



	CAT I	CAT II	CAT III
CAGR 5 yr	11%	15%	8%
CAGR 3 yr	42%	33%	52%
YoY growth	-26%	-2%	43%

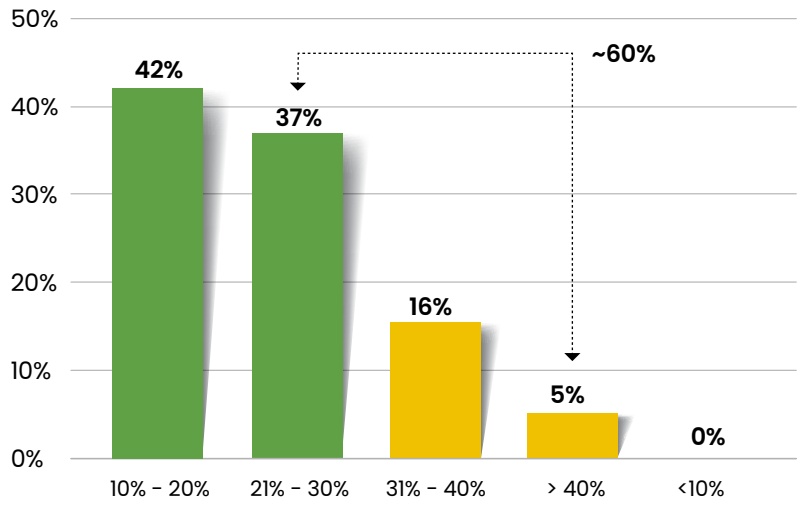
Source: SEBI | Commitments data as on 31st March 2024 | Number of funds data as on 31st March 2024

However, we have only just begun to scratch the surface in terms of harnessing the true potential of AIFs. The industry is set to expand significantly over the next 5 years as both demand and supply side dynamics give a fillip to industry growth.

Optimistic projections: **~60%** respondents expect the AIF industry to grow at **>20%** CAGR over the next 5-years

Exhibit 1.3

What is your growth outlook (CAGR) for the AIF industry in India over the next 5 years?



Source: IVCA - Eleveight industry interactions

The AIF industry's ascent can be attributed to several factors including rising income levels, increased investor awareness, and regulatory reforms such as SEBI's implementation of AIF regulations in 2012. More importantly, both the quantum of wealth and the number of wealthy in India are growing at a sharp clip, thereby creating an environment where an increasing number of individuals are looking to optimally deploy capital to meet their varied portfolio goals.

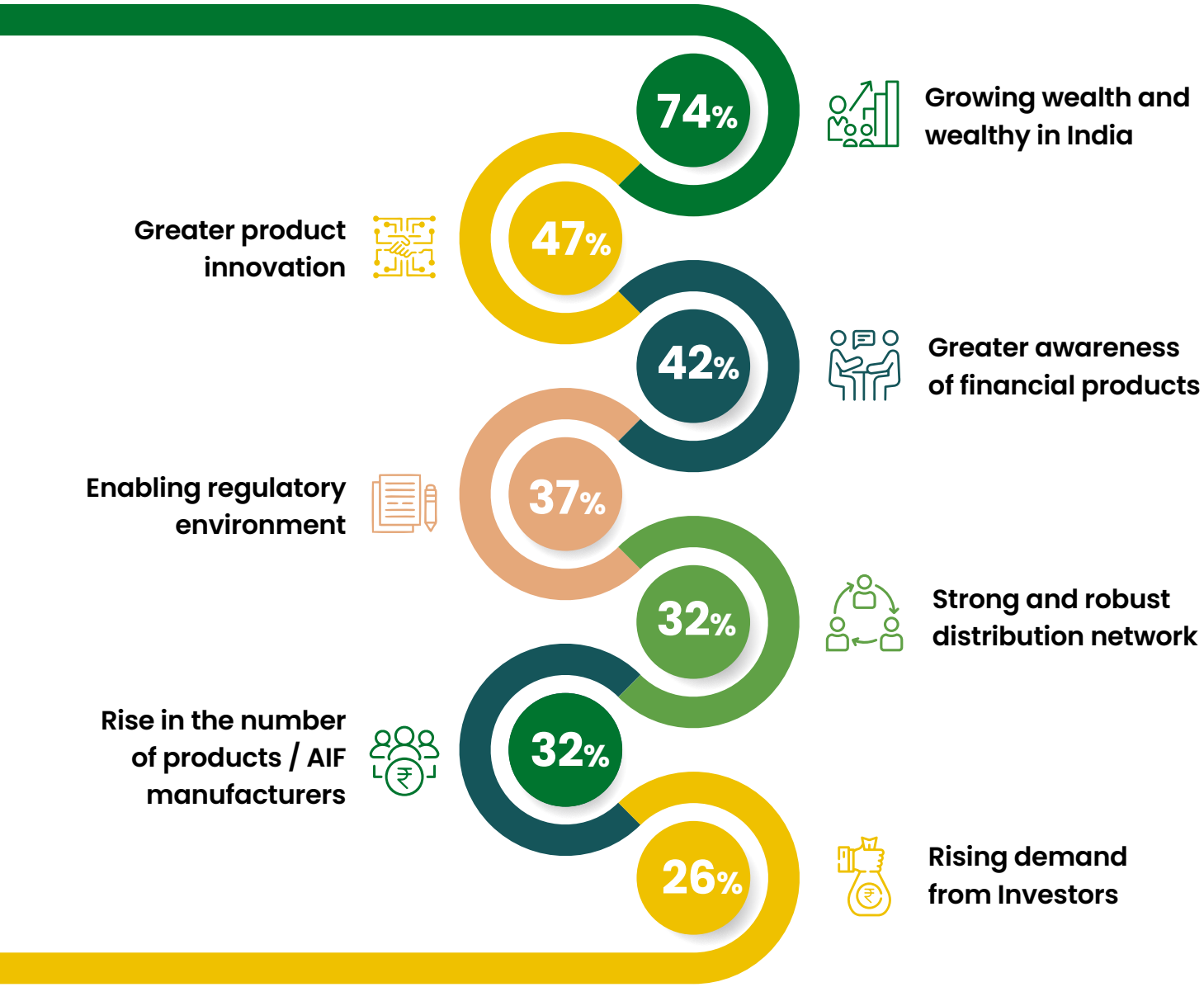
> Category III AIFs in India are at the forefront of financial innovation, presenting a diverse array of strategies including long-only, long-short equity, absolute return, market neutral, arbitrage, and credit. These funds aim to deliver superior risk-adjusted returns. As they continue to navigate various asset classes, market capitalizations, and sectors with expertise, Category III AIFs are poised to secure a significant share of investor portfolios, shaping the future of HNI investment in India. The key to their success lies in consistently meeting risk and return expectations, which bolsters investor confidence and drives growth. Their role in diversifying and enhancing portfolio performance will be instrumental in attracting a broader investor base. The evolution of Category III AIFs signals a transformative phase in India's investment landscape.

VIKAAS M SACHDEVA
Managing Director | Sundaram Alternate Assets Ltd

Growing wealth and wealthy in India
emerge as the key drivers for the growth of AIFs

Exhibit 1.4

What are the top 3 enablers for the AIF industry in India?



Source: IVCA - Eleveight industry interactions

Survey participants highlight 'growing wealth and wealthy in India' as the main driver for the growth of AIFs in the country with 'greater product innovation' trailing closely behind. This underscores the potential for further innovation within the AIF domain.

India offers **AIFs a sweet spot** to flourish

India's position among the top 5 global economies[3], coupled with its projection to maintain one of the youngest populations in the world until 2030[4], lays a robust foundation for AIFs to thrive. Additionally, strategic government initiatives such as Make in India, Digital India, Start-up India, and focused infrastructure development programs are fuelling India's growth story. Unravelling the intricacies tells us why India is a beacon for AIFs poised for exponential growth.



The rise of wealth and the wealthy

- According to the Hurun Research Institute's global rich list, there are 3,279 billionaires worldwide with approximately 3% located in India. Mumbai has emerged as the leading Asian hub for billionaires, surpassing Beijing.
- India is projected to be home to 19,119 UHNWIs with a net worth exceeding $30 million and 16.5 Lakh HNWIs with assets valued at ` 8.35 Cr by 2027.[5]



Conducive environment nurturing financial markets

- The expanding infrastructure, the 3rd largest start-up ecosystem in the world[6], and a thriving business environment all contribute to the success of AIFs. Further, India's thriving capital markets and the general decline in interest rates have made it a popular destination for investors.
- The Indian government's Production Linked Incentive (PLI) schemes have emerged as a catalyst for economic growth. As on June 2023, 733 applications have been approved in 14 Sectors with expected investment of ` 3.65 Lakh Cr.[7]
- The Indian manufacturing sector has displayed a consistent 7% plus growth rate for 3 consecutive years, and the same trajectory is expected in the future. The sector's value is also

3. Source: Forbes (https://www.forbesindia.com/article/explainers/top-10-largest-economies-in-the-world/86159/1)
4. Source: UNFPA (https://india.unfpa.org/en/topics/adolescents-and-youth-8)
5. Source: Knight Frank's 'The Wealth Report 2023'
6. https://pib.gov.in/PressReleasePage.aspx?PRID=1913106
7. https://www.investindia.gov.in/production-linked-incentives-schemes-india
8. Colliers

Wealth generation through the start-up ecosystem

- India is poised to witness the emergence of 250 unicorns by 2025, reflecting the robust growth potential within the start-up ecosystem.[8]
- Founders of high-growth start-ups who amass substantial wealth require specialised financial products to address their nuanced needs. AIFs offer tailored solutions, such as Venture Debt, providing access to collateral-free borrowing, thus meeting the unique requirements of start-up entrepreneurs.

Maturing of the family office landscape

- As Family Offices refine their professional practices, AIFs are poised to gain a more significant share of their investment portfolios. AIFs' capacity to deliver growth through diverse strategies positions them as favoured partners for the sophisticated investment committees within Family Offices.
- Presently, India boasts over 300 Family Offices, a number expected to play a pivotal role in investment dynamics. Projections indicate that by 2025, Family Offices will contribute to around 30% of the anticipated $100 Bn raised by start-ups.[9]

Deepening of the wealth management industry

- With wealth managers at the forefront of curating holistic portfolios for HNIs and UHNWIs, it's no surprise that the demand for sophisticated and niche financial products is rising.
- AIFs require extensive research, guidance, and a strong belief in the investment hypothesis. As the wealth management industry expands, the ability of wealth managers to collaborate effectively with AIF managers will foster the growth of the AIF industry, leading to mutual prosperity.

Evolving investor behaviour and preferences

- Investors are increasingly prioritising personalised services, inclusive decision-making, and enhanced transparency throughout their investment journey. This trend is driving AIF managers to introduce tailored and sophisticated products and leverage digitalisation to refine their operations.

The impressive growth trajectory of AIFs in India narrates their increasing prominence and relevance in the financial sector. With favourable market conditions and regulatory support, AIFs are poised for continued expansion, offering investors diverse and compelling avenues for wealth creation.

9. inc42
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AlphaGrep

INVESTMENT MANAGEMENT

QUANTITATIVE PRECISION, DIVERSE STRATEGIES, ONE GOAL:

ALPHA GENERATION



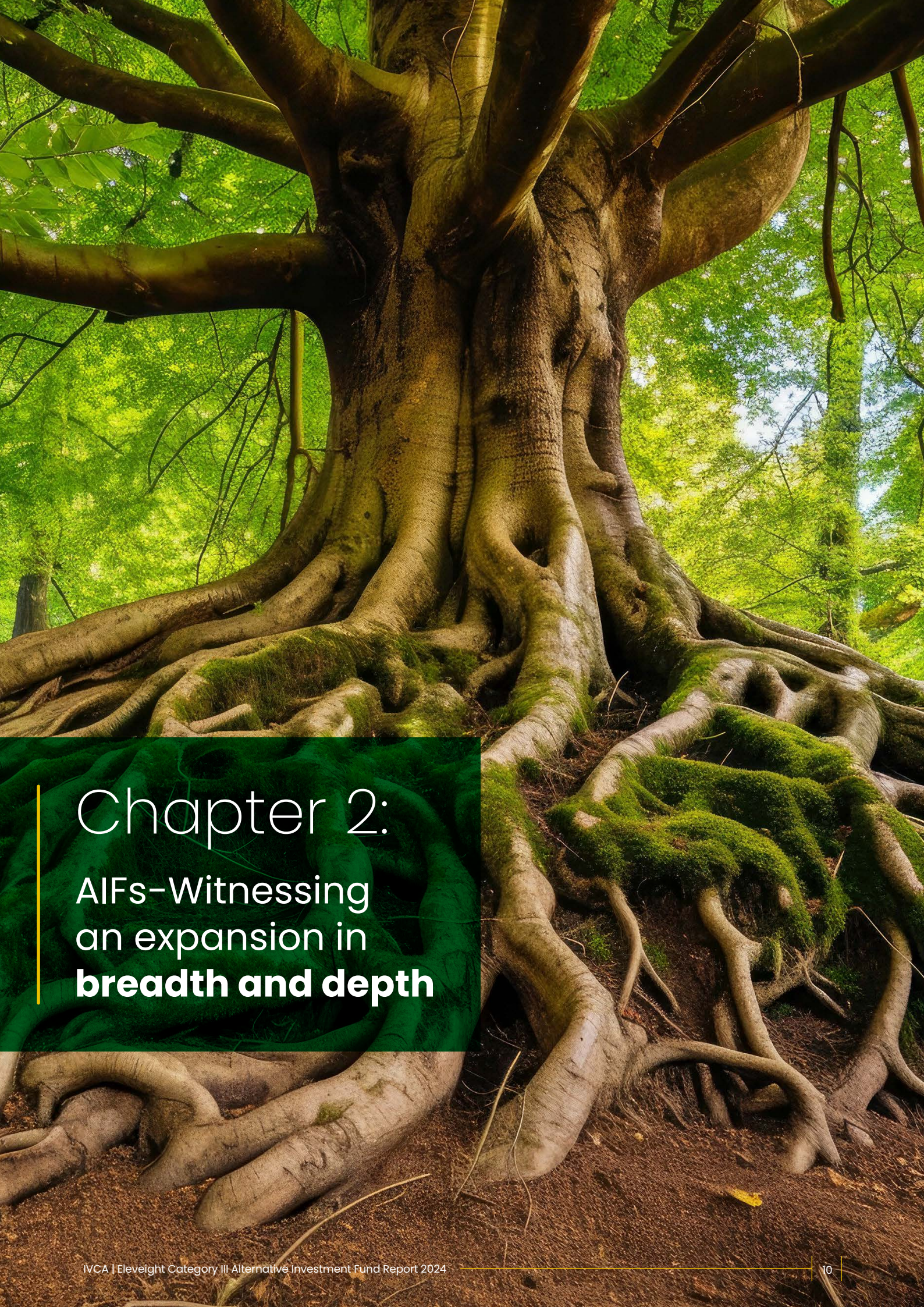


- **Quantitative investment** platform with India and global expertise
- **1.5 decade** of combined experience on systematic strategies
- **350+ experts** in quant research, trading and technology
- Top **talent** from elite universities and hedge funds world-wide
- **Advanced infrastructure** supporting complex models & risk management
- Raised **$500mn (AUA)** globally from investors in the past two years
- Benefits from multiple **diverse strategies** under a single roof

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Chapter 2:

AIFs-Witnessing an expansion in **breadth and depth**

Within the larger **AIF umbrella**, investors have the opportunity to access varied strategies linked to multiple asset classes and covering both public as well as private markets. Many of these have evolved significantly over the last decade and now offer unique opportunities along the risk-return spectrum.

A deep dive into India's alternatives ecosystem reveals the diverse strategies offered within the AIF universe.

Exhibit 2.1

Percentage of strategies across various Alternative Investment Funds



*Data available for 793 schemes
Source Eleveight



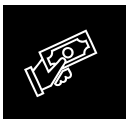
Venture Capital

- India has become the world's 3rd largest start-up ecosystem with over 117,254 Department for Promotion of Industry and Internal Trade (DPIIT) recognised start-ups spread across approximately ~ 800 districts, as of December 2023[11].
- India's burgeoning start-up ecosystem presents an avenue for impactful participation in social causes while enabling potentially higher returns.



Private Equity

- Private Equity (PE) funds are capitalising on expanding opportunities in India as start-ups previously backed by Venture Capitalists (VCs) progress into the next stages of their evolution.



Private Credit

- As the Indian economy gears up for an upswing, the need for capital is expected to witness significant growth. This offers an enticing opportunity to participate in India's credit landscape.
- There is a noticeable transition in credit acquisition from banks to alternative channels.



Real Estate

- India's real estate market offers avenues for participation in commercial, residential, and warehousing sectors through alternative investment vehicles and is forecasted to double by FY 2030.
- Real estate AIFs allow investors to engage in the entire real estate lifecycle, including land development, planning, development, and construction, engendering a potentially higher Internal Rate of Return (IRR).



Long Only

- Long only funds offer concentrated exposure to exclusive sectors or stocks, promising high-quality selection by the most capable fund managers.
- AIFs present an optimal opportunity to access globally renowned fund managers with a proven track record of delivering exceptional returns in public markets.



Hedge/Long Short

- Hedge funds let investors construct a robust, all-weather portfolio to maximise risk-adjusted returns.
- Long short funds enable investors to harness the value engendered through a combination of resilient and growth-oriented products.

11. DPIIT

Trend of note:

Mutual fund asset managers looking at AIFs as a strategic shift

The alternative investments domain is rapidly transforming as many leading mutual fund houses expand their offerings to include AIFs.



~60% of the MFs have launched AIFs

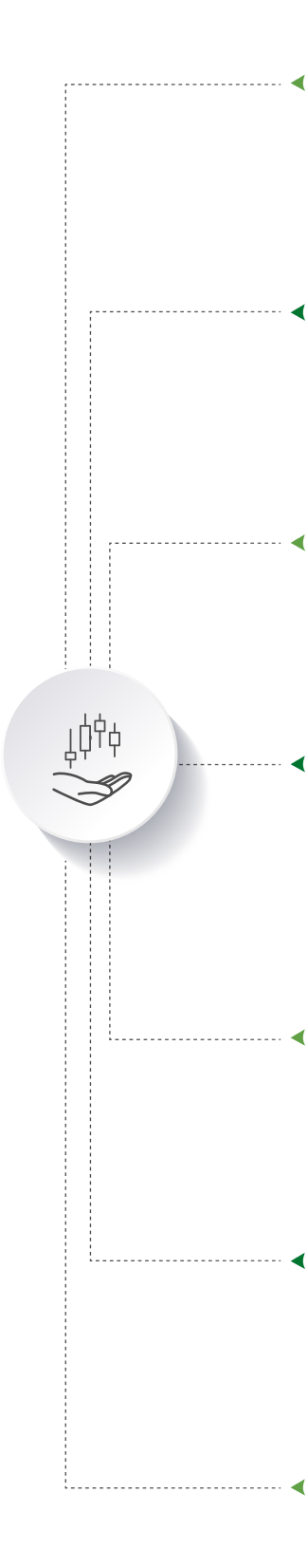
Exhibit 2.2

List of Mutual Fund AMCs (Asset Management Companies) with AIFs*

- SBI Mutual Fund
- ICICI Prudential Mutual Fund
- HDFC Mutual Fund
- Nippon India Mutual Fund
- Kotak Mahindra Mutual Fund
- Aditya Birla Sun Life Mutual Fund
- UTI Mutual Fund
- Axis Mutual Fund
- Mirae Asset Mutual Fund
- DSP Mutual Fund
- Tata Mutual Fund
- Edelweiss Mutual Fund
- HSBC Mutual Fund
- Franklin Templeton Mutual Fund
- Canara Robeco Mutual Fund
- Sundaram Mutual Fund
- Motilal Oswal Mutual Fund
- LIC Mutual Fund
- PGIM India Mutual Fund
- 360 ONE Mutual Fund
- WhiteOak Capital Mutual Fund
- Bajaj Finserv Mutual Fund
- ITI Mutual Fund
- JM Financial Mutual Fund
- Helios Mutual Fund
- Shriram Mutual Fund
- Old Bridge Mutual Fund

Source: Eleveight
*AIFs registered under the AMC or within group entity (Bank/NBFC)

Key reasons for Mutual Fund AMCs to launch AIF offerings:



Synergy with CAT III long only approach

Long only AIFs enable fund managers to adopt a concentrated approach to generate potentially better returns and extend their industry knowledge to serve more sophisticated customers.

Upward shift in the investor pyramid

Moving up the affluence chain (concerning the targeted investor base), the need for innovative, thematic and curated products is increasing. For AMCs to participate in addressing this target audience, AIFs become a necessary vehicle.

Attaining optimal risk adjusted returns

HNIs and UHNWIs have diverse needs across the risk return spectrum. Adding AIFs to the portfolio can help fulfil the need for alpha generation, diversification, and capital preservation **(Preserve, Accumulate, and Grow).**

Fostering relationships with elite wealth management firms

MFs sometimes face challenges entering sophisticated wealth management firms that prefer to deal with Asset Management Companies (AMCs) with diverse product offerings, including Portfolio Management Services (PMS) and AIFs. Launching AIFs as a strategic fit can give MFs an added advantage.

Leveraging existing machinery

AIF verticals within AMCs can leverage the parent company's capabilities for administrative and ancillary functions like marketing, HR, IT, and administration. This equips them with additional advantages over boutique managers and reduces cost of setup.

Access to innovation and niche talent pool

MFs also view AIFs as facilitating a strategic shift to enable the launch of innovative products under the parent brand umbrella. They also hire talent specialising in setting up funds like PE or VC to enhance the product capability.

Entrepreneurial set-up within institutional bounds

AIF verticals enable fund managers to run their respective strategies with some intellectual autonomy. Since the entire division is limited to a dozen people, it may function as a separate entity within the master brand. This empowers fund managers to fulfil their entrepreneurial aspirations while getting support from the parent company.

NORTHERN ARC

NORTHERN ARC Investments

9.42%* net returns in Money Market Alpha Fund



*Net fund returns p.a. as of 30th september 2023 & calculated pre-tax and post all fund expenses since 2019. This is an open-ended fund.

9+ years of track record | Raised ₹40,250 million in investor commitments across 10 AIFs and 2 PMS Funds | Served 850+ investors | Successful exits in 4 AIFs

Investment Service Offerings

- Alternate Investment Funds
- Discretionary PMS
- Tailor-made investment solutions

All data stated above are as on Sept 30th 2023

Northern Arc Money Market Alpha Fund

A compelling investment opportunity for investors seeking attractive returns over shorter time horizons

Fund Description

A category III open-ended alternative investment fund targeting to generate alpha over ultra short-term mutual funds by investing in a well-curated mix of Credit & Liquid allocations

Key Investment Highlights

- Predictability of Investor Cashflows Via Monthly Redemptions
- Daily NAV Reporting
- Curated Portfolio to Facilitate High Liquidity
- Lean Fund Economics

Target Sectors

Liquid (20%)

- A1+ (or equivalent)
- AA+ or above
- PSUs below rating threshold of AA+ may be considered

Credit (80%)

Entities selected from Northern Arc Group's lending universe of 300+ originators (BBB- or above) across sectors

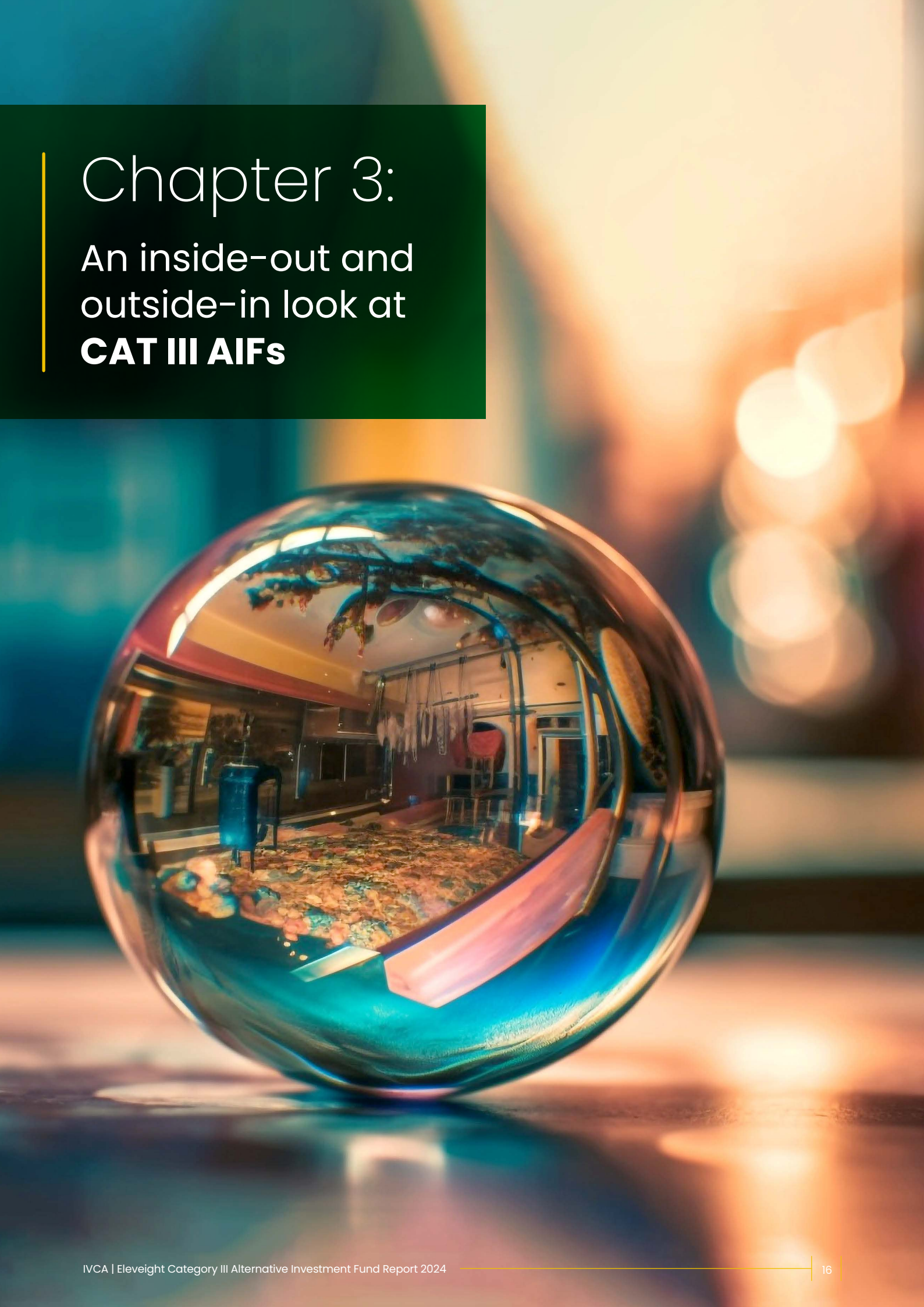
Target Investors

- HNIs/Ultra HNIs
- Corporates/ Institutions
- Family Offices

This communication does not constitute nor form part of and should not be construed as an offer, an invitation to offer, an advertisement or any other solicitation, an advice or recommendation to purchase or subscribe any securities or interests, including any potential interest in any offering by Northern Arc Investments. As per SEBI's circular dated February 06, 2020, all AIFs are required to showcase their performance against AIF performance benchmarks released by CRISIL. To access the full contents of the SEBI benchmarking report, kindly visit the URL: https://bit.ly/38ptZMI

Chapter 3:

An inside-out and outside-in look at **CAT III AIFs**

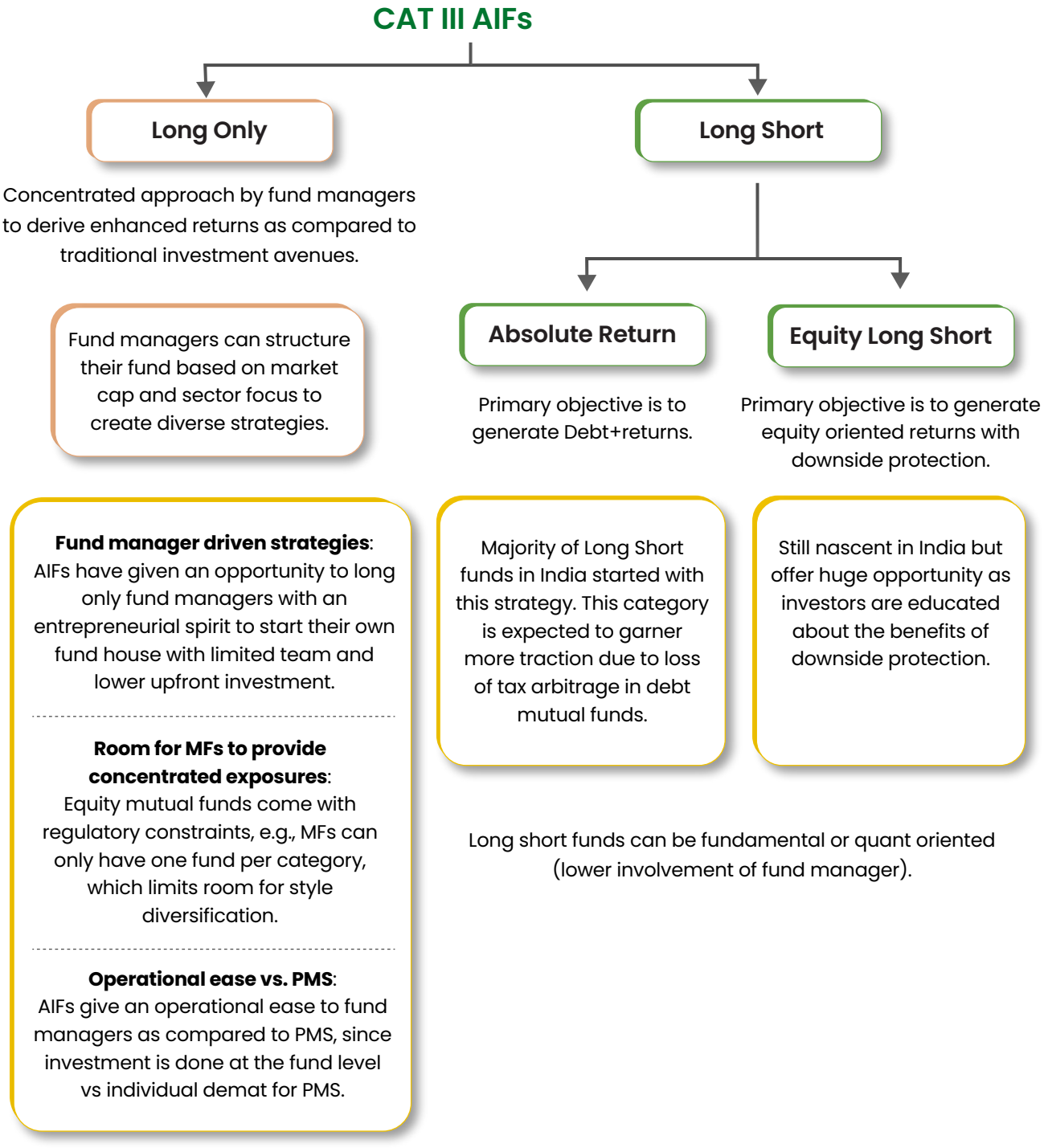


Across categories, both investor interest as well as capital commitment towards CAT III AIFs has been increasing at a steady pace.

According to SEBI's classification, CAT III AIFs encompass funds that employ diverse or intricate trading strategies and may also employ leverage through investments in listed and unlisted derivatives. By definition, these funds should be able to hedge risks effectively, thereby facilitating the **creation of an all-weather portfolio and optimising risk adjusted returns**.

However, it's worth noting that the actual structure of AIFs followed by manufacturers within the Indian market is somewhat limited. Within CAT III, the 2 strategies that primarily dominate offerings are i) Long Only and ii) Long Short.

Exhibit 3.1



Balancing risk and return: Tethered to core tenets

Both long only and long short funds are predominantly centred on the fund manager's expertise and acumen. In India's promising market landscape, long only funds exhibit a notable growth propensity, both in quantity and asset accumulation. Nevertheless, the emergence of a growing number of long short fund managers indicates a shifting landscape. Effective wealth management hinges on creating a portfolio that can proactively harness the value engendered through a combination of resilient and growth-oriented products. AIFs, especially long short funds, enable the curation of such calibrated investment avenues. Long short funds allow adopting many strategies that focus on attaining optimal risk adjusted returns.

Further, considering the global focus on downside protection, Indian fund managers are strategically launching long short funds tailored to meet the needs of international investors seeking exposure to India's growth narrative through equity markets while ensuring downside protection. This approach aims to achieve targeted risk adjusted returns for their portfolios. Gujarat International Finance Tec-City (GIFT City) offers an immense opportunity to explore this further.

> Category III AIFs herald a new era of product innovation, providing investors access to a spectrum of previously unavailable, differentiated solutions to diversify their portfolios, manage volatility, and generate consistent returns. Volatility is, fortunately or unfortunately, an integral part of the Indian capital markets, and most Category III strategies are designed to thrive in such conditions. This, combined with the progressive regulatory atmosphere in the country, not only promises better pricing but also fosters an environment conducive to sustainable growth, driven by demand from investors and product innovation by manufacturers.

ANSHU KAPOOR
President and Head | Nuvama Asset Management

> SEBI's AIF Category III allows significant room for innovation to create differentiated offerings to investors across asset classes. Such funds can deliver alpha over conventional capital market products and provide low correlation returns across investment horizons. However, the current tax treatment in this category puts it at a disadvantage and limits the potential product range currently launched in this category. The combination of positive regulations and an ever-increasing performance track record in this category can result in both scale and variety in Category III funds in the near future.

RAVI VUKKADALA

Global landscape

Internationally, hedge funds are the asset class most similar to CAT III AIFs in India. Over the last ~75 years, they have evolved significantly to now dominate the industry.

1949

The first hedge fund strategy by Alfred Winslow Jones

- Jones achieved strategic market neutrality by acquiring assets he expected to appreciate compared to the overall market performance while concurrently short-selling assets he anticipated would depreciate.

1952

Jones created the first hedge fund product by adding incentives and transforming his fund into a limited partnership

- This marked the inception of the first pooled investment vehicle to integrate a hedged strategy with leverage and a 20% fee.

1969

The first fund aimed to grant investors access to multiple hedge funds through one investment vehicle

- In the 1960s, hedge funds garnered increasing interest among fund managers, exemplified by notable launches such as the Quantum Fund, advised by George Soros.

1980

After a tepid period during the stock market crashes in the 1970s, hedge funds experienced a resurgence

- Fund managers embraced new strategies and enhanced leverage, leading to small teams achieving exceptional returns.

1990

The hedge fund surge began with Bridgewater Associates and other prominent firms launching their funds

- This period saw the rise of innovative strategies and superstar fund managers. Arbitrage, macro, distressed investments, activism, and multi-strategy became integral components of the hedge fund landscape.

2000 -2010

Hedge funds experienced steady growth and reached ~$2 Trillion AUM by 2008

- The 2008 GFC (Global Financial Crisis) posed challenges for hedge funds. However, during this phase, institutional investors such as **pension funds, insurance companies, and sovereign wealth funds grew interested in hedge fund products.**

2010 onwards

Stronger regulations and more funds formalised the hedge fund industry

- With intensifying competition, the hedge fund sector underwent further professionalisation and institutionalisation. It is valued at over $4 trillion and **is the second-largest component of the global alternative investment landscape, comprising approximately 30% of global alternatives AUM.** Projections indicate a trajectory towards surpassing $5 trillion by 2028.

There are estimated to be around 30,077 hedge funds globally.

Source: Preqin

Competitive forces:
Contrasts in global and domestic hedge fund markets

One key distinguishing factor between global and domestic hedge fund markets is that the global markets are more mature and highly competitive. This competition nurtures innovation, fosters experimentation, and encourages the development of more comprehensive product offerings. Furthermore, the market's institutionalisation helps mitigate fragmentation at the investor level, ensuring a more streamlined and cohesive investment landscape.

Top hedge funds across the globe

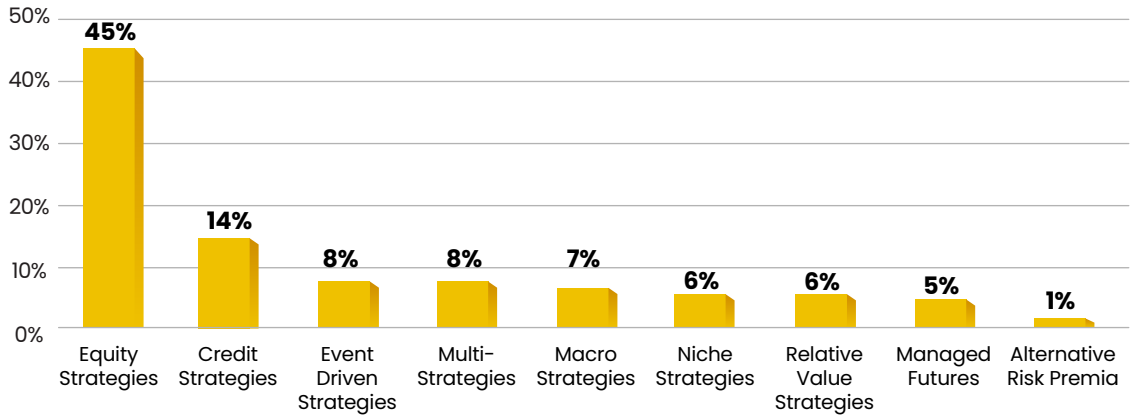
Exhibit 3.2

Name	AUM	Year Founded
Citadel	$339 Bn	1990
AQR Capital Management	$120Bn	1998
D.E. Shaw	$109Bn	1988
Renaissance Technologies	$106Bn	1982
Bridgewater Associates	$97Bn	1975

Source: Forbes, Data as on Sep'23

Global hedge funds **AUM by strategy**

Exhibit 3.3

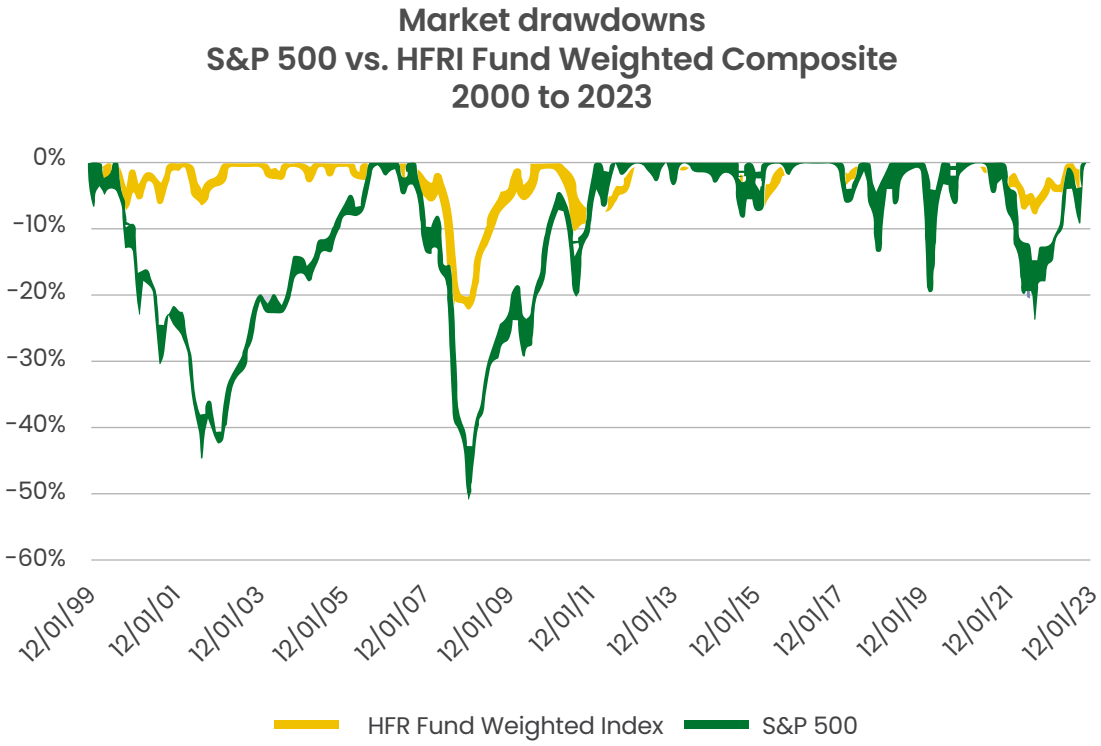


Source: Preqin, Data as on Sep'23

Diversification amidst volatility: Hedge funds' advantage over S&P 500

The Hedge Fund Research Index Fund Weighted Composite, a gauge of hedge fund performance, reveals that hedge funds as a group have shown less pronounced declines during periods of significant losses in the broader stock market, as measured by the S&P 500 (Standard and Poor 500) in recent years. It underscores hedge funds' potential diversification benefits amid market volatility.

Exhibit 3.4



Source:https://www.usbank.com/investing/financial-perspectives/investing-insights/diversification-with-hedge-funds.html

Category III AIFs have experienced significant growth and popularity in recent years thanks to a positive overall economic outlook, strong performance of listed equity schemes, innovative investment strategies/themes, the emergence of a new breed of experienced fund managers etc. Within Category III, long-only AIFs have attracted higher inflows compared to other strategies due to their simplicity and similarity with traditional investments such as MFs. The ability to generate higher risk-adjusted returns and flexibility under such AIFs will continue to fuel the growth of this strategy. Apart from long-only AIFs, long-short and derivative/hybrid AIFs adopting hedging strategies have also attracted interest from a select class of investors in the past few years. With the current market volatility and investors' desire for higher returns, these AIFs are also expected to gain popularity in the coming years.

ASHISH CHUGANI

Head - Alternative Investments | Nippon Life India AIF Management Limited

Nippon India Alternative Investments

Partnering in your journey towards Alpha

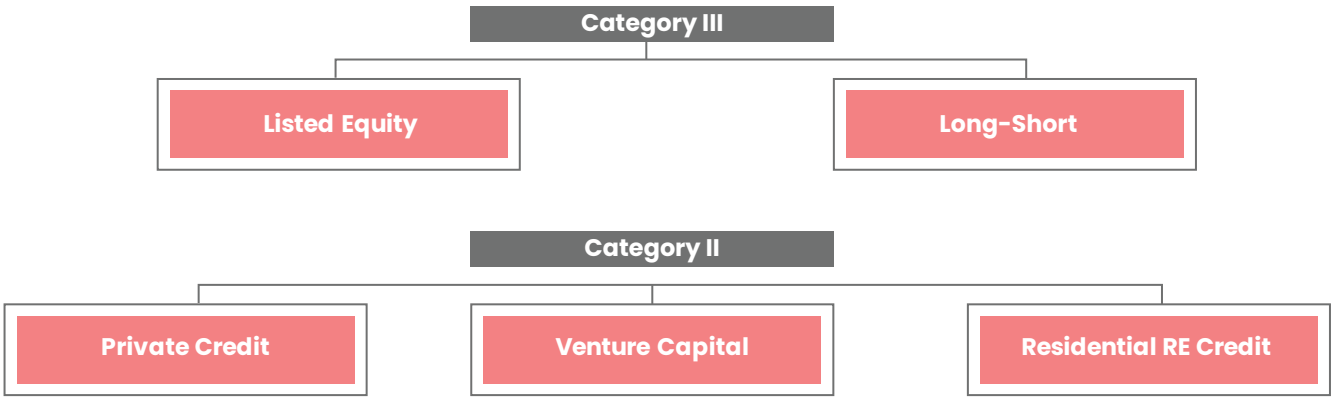
Where your investments are strategically nurtured in portfolios across diverse asset classes



21	₹ 6,000 cr+	3,500+	9+ years
schemes launched	of commitments raised since 2014	unique investor base	years of experience in the AIF space

Being an integral part of the distinguished Nippon Life Group, Japan and Nippon India Asset Management Company, we stand as one of India's leading asset managers in Category II & Category III Alternative Investment Funds.

Nippon India Alternative Investments (NIAIF) provides investment opportunities through various unique offerings across asset classes. NIAF's capabilities span across:



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Chapter 4:

Contours of CAT III AIFs

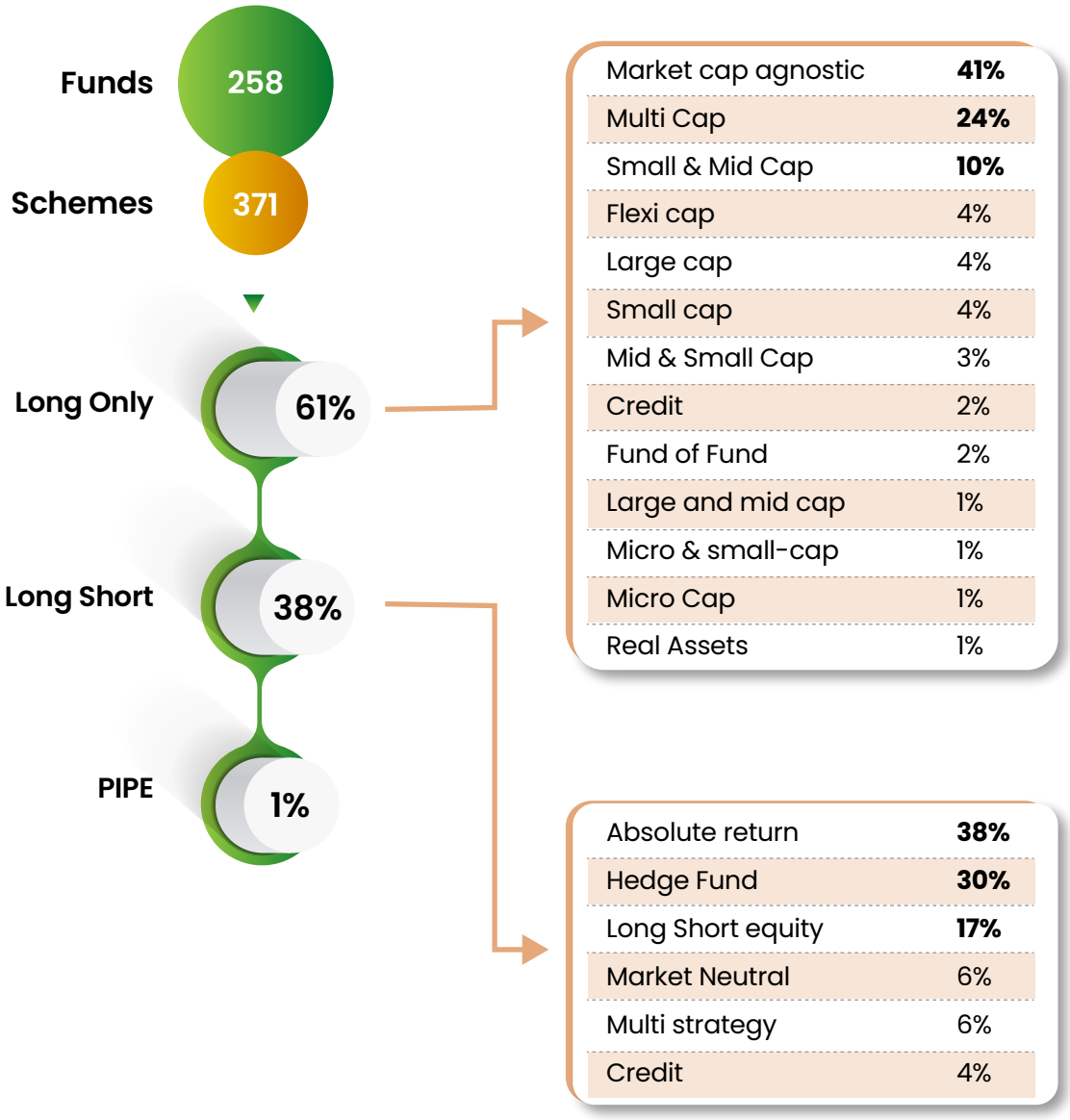
A master asset class in its own right

CAT III AIFs demonstrate diversity in investment strategies and structures with 258 funds that house more than 371 schemes. A deep dive into registered CAT III funds reveals a dominant presence of long only funds which account for ~61% of the CAT III share. A significant 40% of funds within the long only space are market cap agnostic, indicating the need to have flexibility in allocation across market caps in order to generate alpha. Meanwhile, long-short strategies constitute ~38% of CAT III AIFs, indicating investor demand for absolute return and hedge fund strategies.

Exhibit 4.1

Scheme and strategy analysis of CAT III AIFs

No. of funds and schemes CAT III



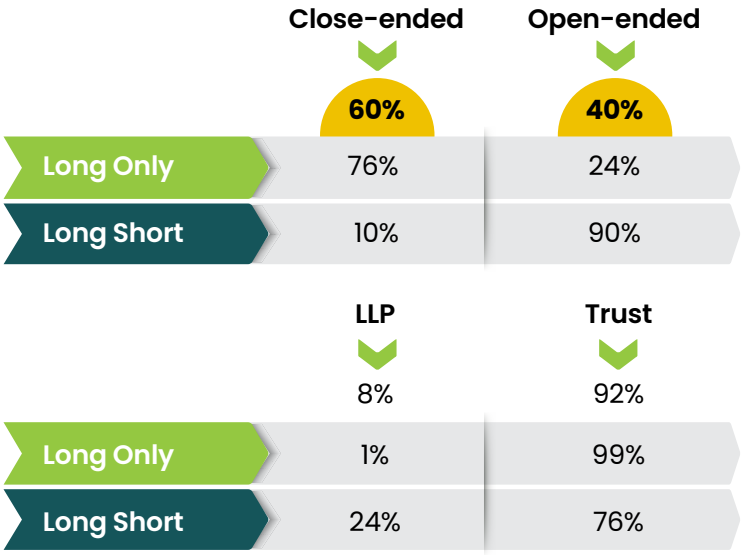
Market cap agnostic	**41%**
Multi Cap	**24%**
Small & Mid Cap	**10%**
Flexi cap	4%
Large cap	4%
Small cap	4%
Mid & Small Cap	3%
Credit	2%
Fund of Fund	2%
Large and mid cap	1%
Micro & small-cap	1%
Micro Cap	1%
Real Assets	1%

Absolute return	**38%**
Hedge Fund	**30%**
Long Short equity	**17%**
Market Neutral	6%
Multi strategy	6%
Credit	4%

Source: Eleveight analysis of SEBI data
Data based on analysis of 146 schemes under CAT III AIFs

Exhibit 4.2

Structures followed by CAT III AIFs



~60% of funds in CAT III are close-ended structures. This reflects a strategic preference for defined investment periods and potentially higher risk adjusted returns.

Source: Eleveight analysis of SEBI data
Data based on analysis of 146 schemes under CAT III AIFs

Exhibit 4.3

Benchmarks followed by CAT III **Long Only** funds

S&P BSE 500 TRI	22%
Nifty 50 TRI	13%
S&P BSE 500	11%
Nifty 50	5%
S&P BSE 200 / S&P BSE 500	5%
S&P BSE 200 TRI	5%
CRISIL AIF Index – CAT III	4%
NIFTY 500	4%
BSE 500	4%
S&P BSE 200	4%
S&P BSE Small Cap	4%
NIFTY 500 TRI	3%
S&P BSE 400 Mid Small Cap	2%
CNX Nifty Index	1%
Crisil Liquid Fund Index	1%
MSCI Emerging Markets India Net TR	1%
Nifty 200	1%
Nifty 500 Multicap (50:25:25)	1%
NIFTY Financial Services	1%
Nifty India Consumption	1%
Nifty India Service Sector Index	1%
Nifty Microcap 250	1%
Nifty Midcap	1%
Nifty Midcap 100	1%
Nifty Midcap 100 TRI	1%
NSE 50 Index	1%

Source: Eleveight analysis of SEBI data

Exhibit 4.4

Benchmarks followed by CAT III **Long Short** funds

Nifty 50 TRI	36%
Nifty 50	23%
S&P BSE 200 TRI	9%
91 Day T-Bills	5%
CCIL TBILL Index	5%
Crisil Composite Bond Fund Index	5%
NIFTY 200 Total Returns Index	5%
Nifty 50 & Bank Nifty	5%
Nifty 500, Nifty smallcap 100, Nifty midcap 100	5%
NIFTY200	5%

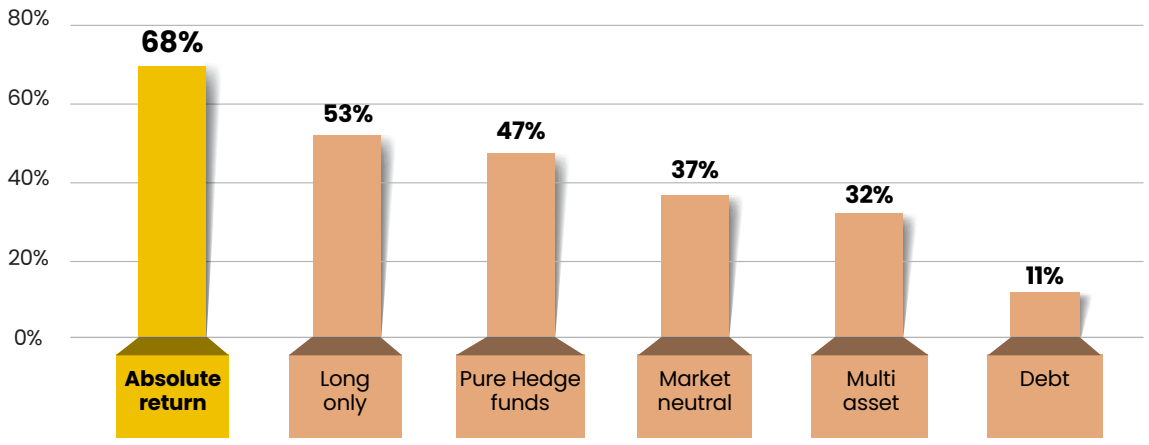
Data based on analysis of 144 schemes
Source: Eleveight analysis of SEBI data

The diversity of benchmarks used by CAT III AIFs **illustrates the extensive range of strategies these funds employ.** Each strategy elucidates the intricacies and nuances of the underlying assets and showcases the fund manager's depth of experience and expertise. Having said that, it is inevitable that select strategies or approaches find favour among investors. In the case of CAT III funds, absolute return strategies tend to dominate.

Absolute return funds to see majority traction within **CAT III AIF universe**

Exhibit 4.5

In your opinion, over the next 5 years, which are the top 3 strategies in the CAT III AIF space that have the greatest growth potential in India?



Source: IVCA - Eleveight industry interactions

While India has predominantly been a long only market, the CAT III space is witnessing more innovation than ever before.

Consistency of products delivering on their promise of risk and returns is another key enabler for the growth of AIFs. This consistency is also benefiting new entrants as it improves investor confidence in the product.

Most investors do not understand the nuances of long short funds as they are completely different from other conventional offerings by MFs and PMS. **However, this seems to be changing drastically as the market matures.**



Traditional investment products can only do so much. The capability of fund managers to be present across the risk return spectrum with a mix of asset classes, market caps, and sectors enables CAT III funds to find a share of wallet within the investor portfolio.

"Category III AIFs potentially provide the only platform that allows managers to offer uncorrelated strategies to investors. One hallmark of hedge funds is their pursuit of absolute returns, meaning they aim to generate profits regardless of market conditions by employing diverse tactics using various instruments, including derivatives. This flexibility allows hedge fund managers to adapt to changing market conditions and potentially generate returns, regardless of whether the market is rising or falling.

Globally, HNI's, family offices, or institutions allocate anywhere between 10-20% of their portfolio to alternates, and for that to happen in India, hopefully at some point in the future we will need to have a similar regulatory environment and tax parity."

BHAUTIK AMBANI
CEO | AlphaGrep Investment Management



In the last 10 years, PwC India has served over 300 private equity clients across 1200+ PE transactions with a disclosed value of $166 billion.

Our connected global network of industry-focused deal advisors bring a value-creation approach underpinned with data-driven insights to help our clients identify and unlock maximum value from their deals.

For more on how PwC India can partner with you, go to **www.pwc.in/deals**

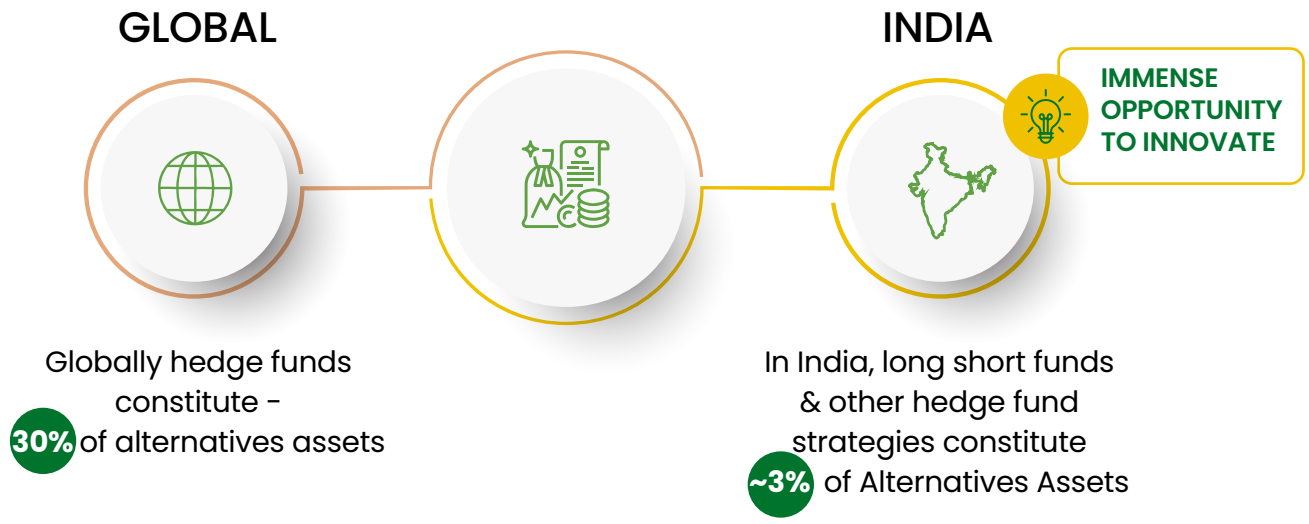
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Chapter 5:

CAT III AIFs
A growth story for posterity

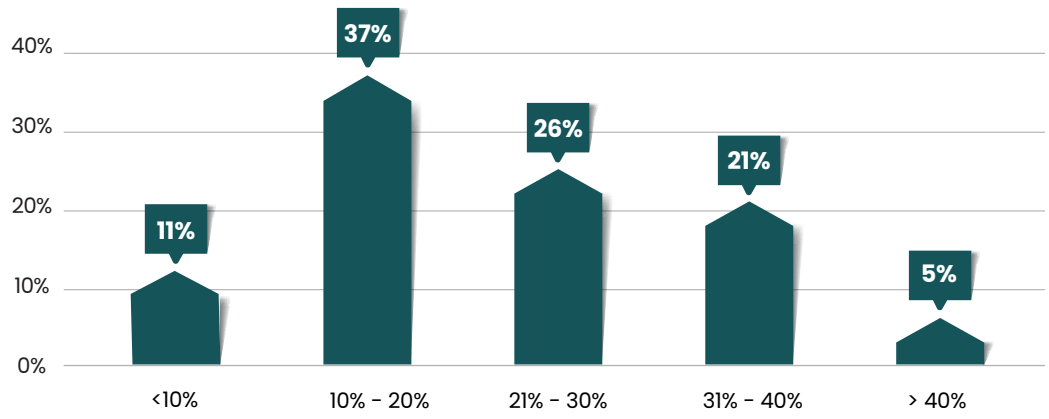
Inarguably, CAT III AIFs have significant growth potential considering the unique value that they add to investor portfolios. It is interesting to note that globally hedge funds, similar to CAT III long short funds, constitute ~30% of alternative assets[12] which is significantly higher than the ~3% that long short funds and other hedge fund strategies constitute as a percentage of total alternative AUM in India. **Clearly, the potential to innovate and grow is immense.**



Commitments raised by **CAT III AIFs** could grow to **2.5 Lakh Cr by 2028**

Exhibit 5.1

What is your growth outlook (CAGR) for the CAT III AIF industry in India over the next five years?



Source: IVCA - Eleveight industry interactions

12. Eurohedge

Most stakeholders believe that CAT III AIFs will grow at a rate similar to the entire Indian AIF industry. A substantial 26% believe that CAT III AIFs will grow at a CAGR of more than 30% over the next 5 years while a majority of industry stakeholders believe that CAT III AIFs will grow at an average CAGR of 20%. This could potentially enable the commitments

raised to grow to **~ ₹ 2.5 Lakh Cr.**

Alpha quest vs. Stability shield:
The dichotomy of long only and long short investors

The unique appeal of AIFs draws investors and wealth managers to integrate them into their portfolios. HNIs and UHNWIs are particularly attracted to these funds to access distinctive opportunities that may not be available through traditional investments.

Why are investors investing in CAT III AIFs?

Long only fund managers can leverage their vast experience to build niche portfolios that can be resilient and generate substantial returns in the long run, whereas long short fund managers leverage the breadth and depth of strategies to offer myriad options across the risk-return spectrum to the clients. The value proposition offered by each of the strategies is unique and thus, investors are drawn to long only and long-short funds for different reasons. In case of the former, 68% of the respondents were attracted by the alpha generation potential of long only funds while 58% opted for long only funds due to their ability to offer investors an opportunity to invest in unique ideas. On the other hand, 58% of respondents said that they invest in long-short funds for risk diversification while 42% said that their choice for long-short funds was influenced by the ability of such funds to provide portfolio stability.

> Indian capital market has been going from strength to strength in terms of building strong regulatory infrastructure, and an unprecedented depth, breadth & liquidity. This set up offers a perfect opportunity for financial market innovations, particularly for sophisticated large investors who demand global standard in terms of differentiated product design for risk-return. Thankfully, Cat III framework helps harnessing this opportunity across asset classes. No wonder, the CAT III AUM has grown @ 100% + CAGR in last decade. While tax neutrality will help the investor and industry more, we are happy to have offered a unique Money Market Alpha Fund, an open-ended-money-market-credit-Fund that has delivered 9.5% CAGR, post expense, since its inception 5.5 year ago, without any delay or delinquency, including during Credit or Covid crisis.

BHAVDEEP BHATT
Chief Executive Officer | Northern Arc Investments

Alpha generation is the key driver for long only funds: Long short investors vouch for risk diversification and portfolio stability

Exhibit 5.2

What are key reasons investors choose long only CAT III AIFs?

Higher alpha generation	68%
Opportunity to invest in unique ideas	58%
Long investment horizon	42%
Reputation of the fund manager	42%
Nudges from the distributor/ wealth manager	32%
Customised offerings and greater attention to investment needs	32%
Specialised treatment from the fund manager	21%
Asset class diversification	11%
Capital Protection	11%
Portfolio stability	11%
Better risk adjusted returns	5%
Risk diversification	5%

Source: IVCA - Eleveight industry interactions

Exhibit 5.3

What are key reasons investors choose long short CAT III AIFs?

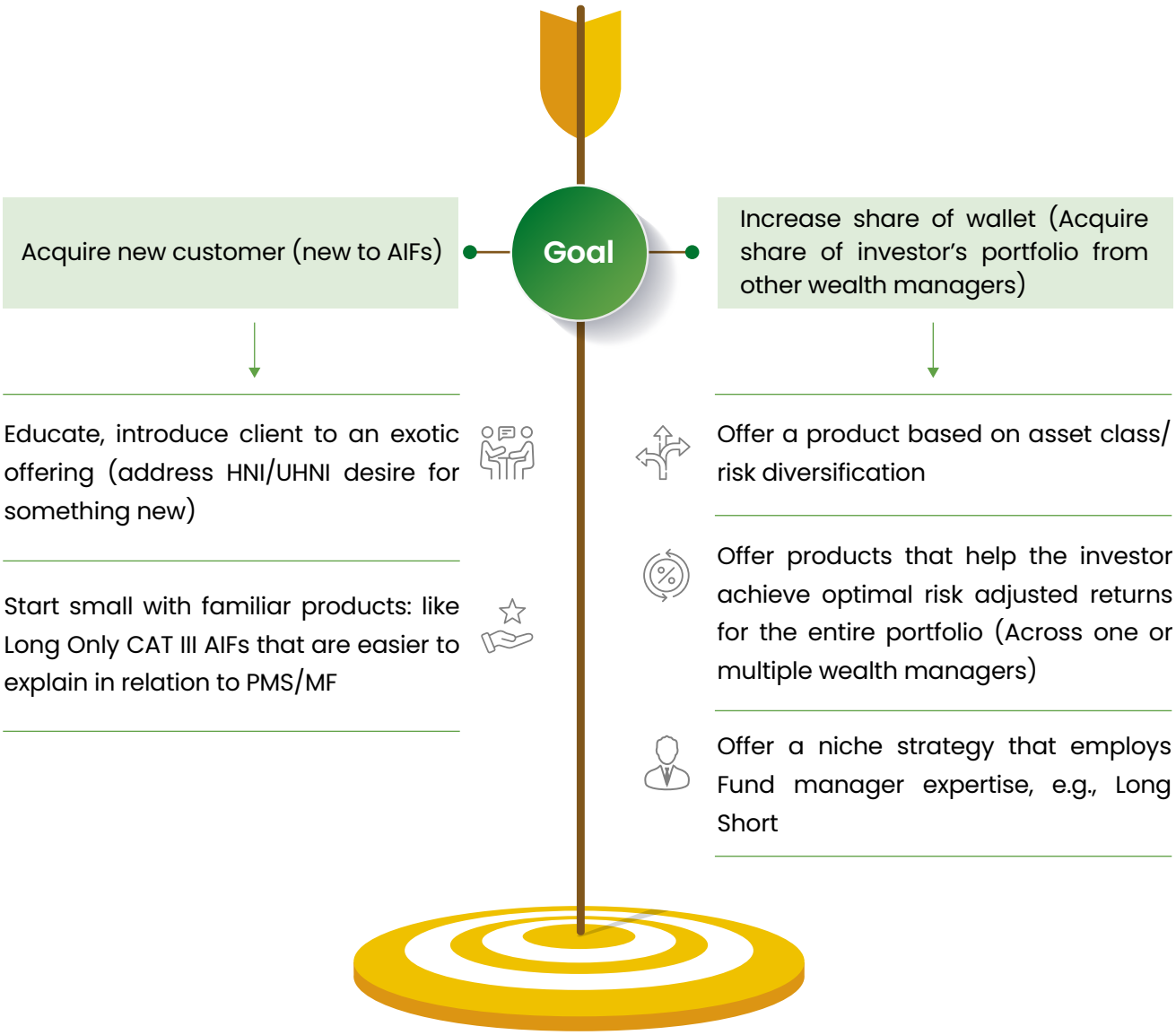
Risk diversification	58%
Portfolio stability	42%
Opportunity to invest in unique ideas	37%
Higher alpha generation	32%
Capital protection	26%
Asset class diversification	26%
Reputation of the fund manager	21%
Customised offerings and greater attention to investment needs	11%
Specialised treatment from the fund manager	11%
Nudges from the distributor / wealth manager	5%
Alternative for debt funds	5%
Unique platform	5%

Source: IVCA - Eleveight industry interactions

Why are wealth managers selling CAT III AIFs?

Globally, the AIF landscape is primarily institution-driven and retail investments are channelled through entities such as pension funds and endowments. Consequently, distributors and wealth managers may play a minor role in industry expansion. In contrast, India remains predominantly retail-oriented, necessitating wealth managers to actively engage with numerous HNIs, UHNWIs, and FOs. This differs from the manufacturer reaching out directly to institutions, highlighting the retail-centric nature of the Indian AIF market. Thus, AIFs become a strategic imperative in the wealth managers' business model.

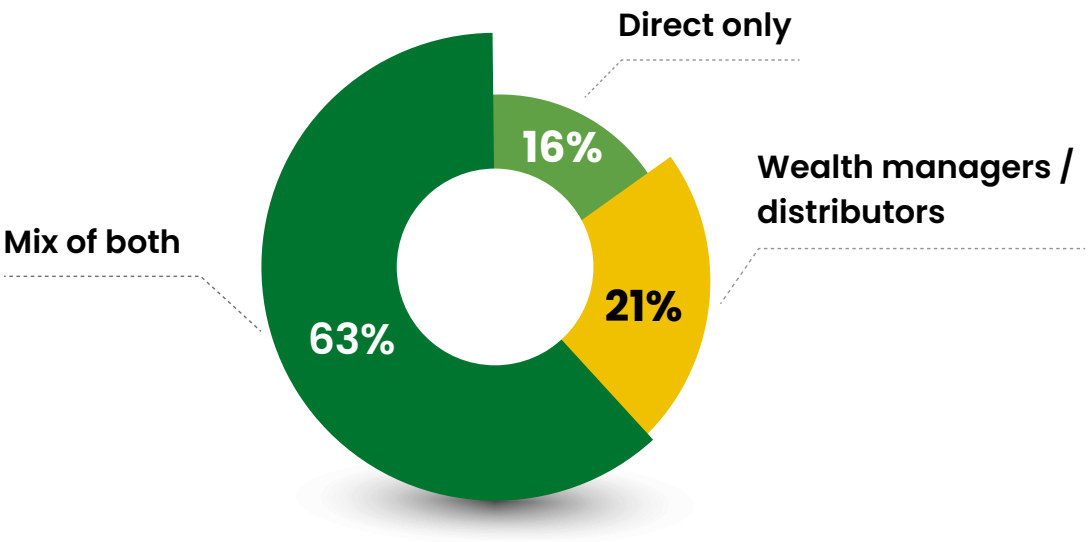
Exhibit 5.4



It is no secret that wealth managers play an integral role in the AIF ecosystem, especially in CAT III AIFs, acting as conduits between providers of capital and seekers of capital.

Exhibit 5.5

What is the preferred mode for manufacturers to acquire investors?



Source: IVCA - Eleveight industry interactions

Majority of manufacturers prefer a balance of wealth manager led acquisition and direct engagement with investors.

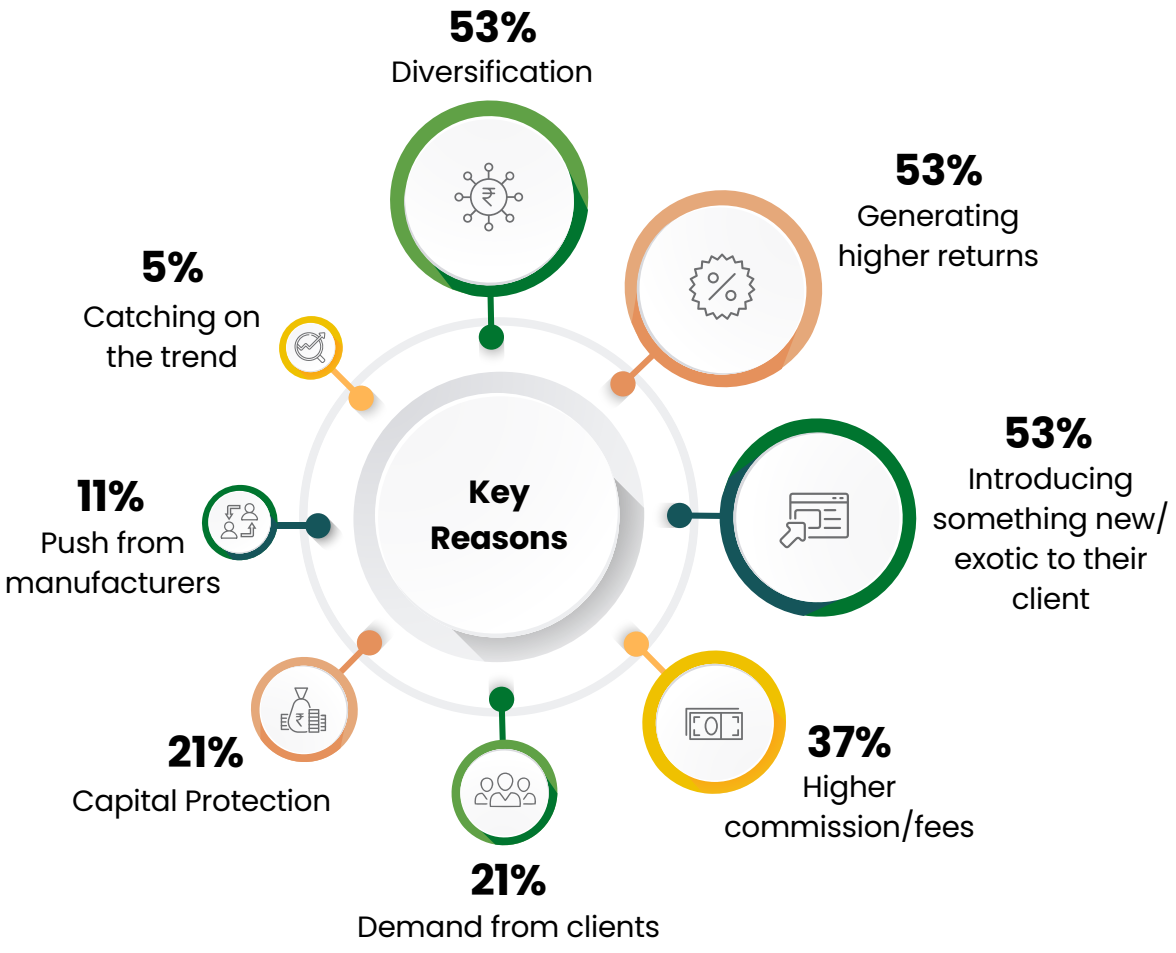
It's essential to effectively communicate the fund manager's investment strategy to investors using simple terminologies while preserving the depth of their hypothesis. Additionally, wealth managers play a crucial role in discerning the most suitable product among the array of alternatives available. They aim to offer investors the optimal options for risk adjusted returns that best align with portfolio objectives.

However, when it comes to recommending CAT III AIFs, wealth managers seek to strike a balance across diversification, returns, and novelty of product with 53% of respondents choosing each of these as one of the key reasons for recommending CAT III AIFs to clients.

Diversifying risk and **generating higher returns** are equally important for wealth managers while including CAT III AIFs in client portfolios

Exhibit 5.6

What are the key reasons for wealth managers / distributors to recommend / sell CAT III AIFs to their clients?



Source: IVCA - Eleveight industry interactions

Further, one cannot ignore the fact that commercially, AIFs continue to be a viable product for distributors despite SEBI's recent introduction of the trail-only model for CAT III AIFs. **Interestingly, 21% respondents also noted that investor demand or inquiries about AIFs influence recommendations, signalling a positive trend.**

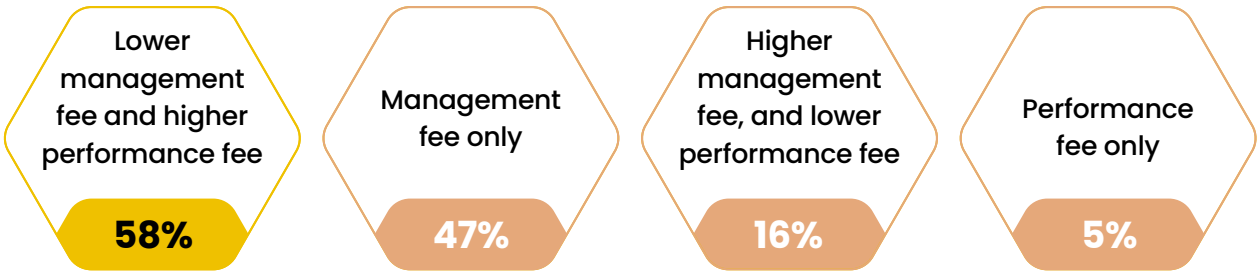
Performance performance performance...

The word that rules **CAT III commission** structures

Performance reigns supreme in CAT III AIFs, shaping both investor acquisition strategies and fee structures. As fund managers navigate the landscape, their preferred fee structure often prioritises a lower management fee coupled with higher performance incentives. This underscores the emphasis on delivering tangible results in a performance-driven environment.

Exhibit 5.7

What is the preferred fee structure being charged for your funds?



Source: IVCA - Eleveight industry interactions



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High Yield Secured Real Estate Fund IV

Real estate investing made accessible.

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- Secured by valuable collateral
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Digital on-boarding now live for resident Indians,

NRIs & non-individuals.

Minimum capital commitment – Rs. 1 Crore /-
A CAT II AIF Fund

SUNDARAM ALTERNATES
Sundaram Finance Group

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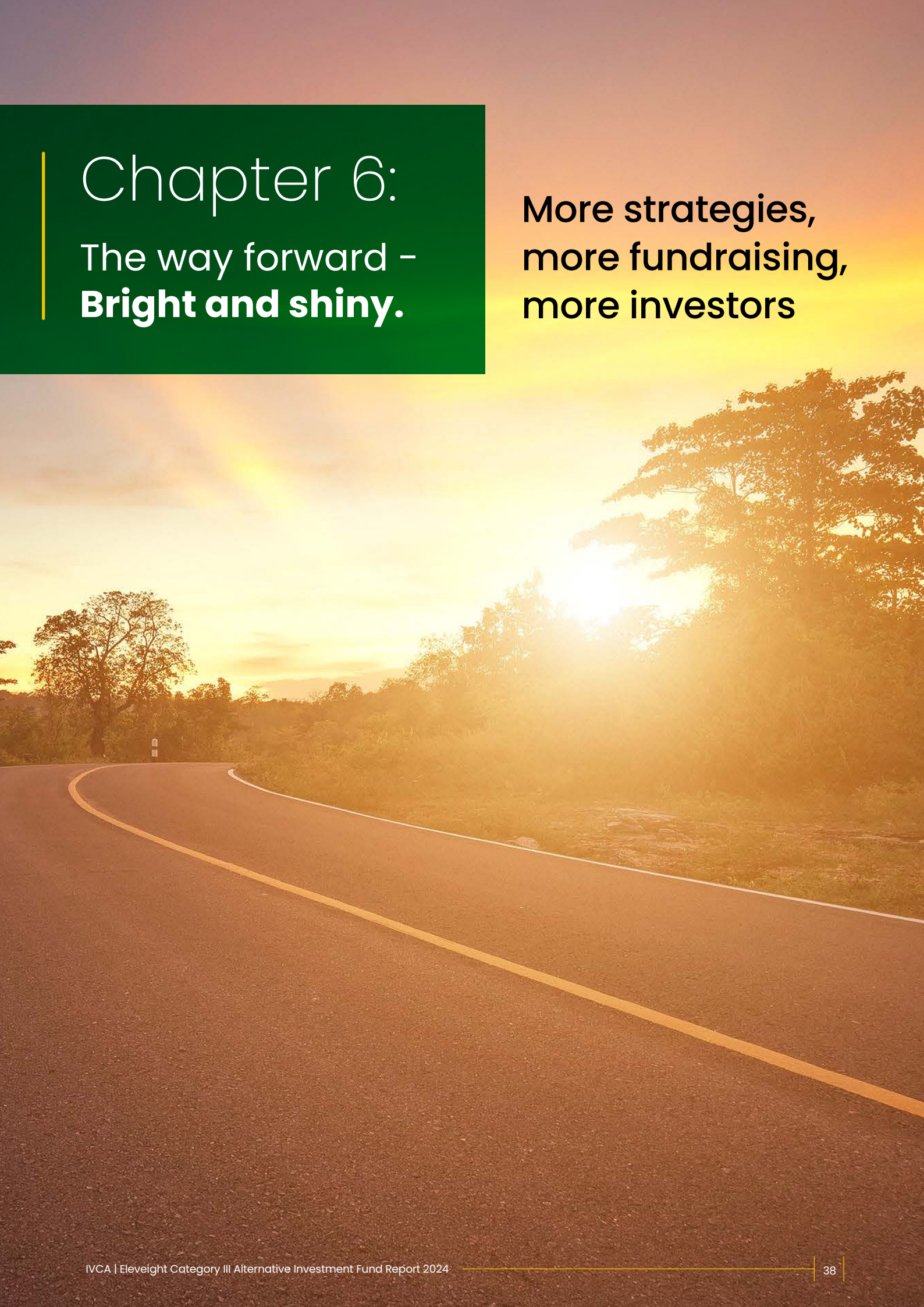
Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved. Please read the fund documents carefully before investing.

Client has an option for direct on-boarding without intermediation of persons engaged in distribution services. In this mode, client will be charged management fee and portfolio operating expenses. No other charges will be levied.

Chapter 6:

The way forward - **Bright and shiny.**

More strategies, more fundraising, more investors



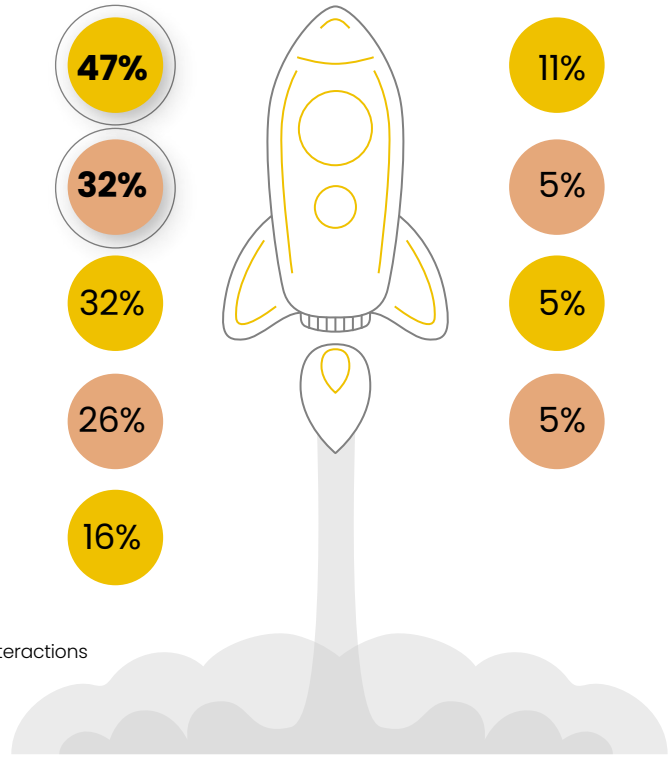
Fund managers are harnessing their expertise to spearhead the launch of new schemes. In fact, **most players plan to launch ~ 3 long only schemes and ~ 3 long short schemes in the next 2 years.** This trend represents the industry's commitment to innovation while also focusing on introducing strategies that align with evolving investor preferences.

We see that new fund launches focus on long only and absolute return strategies. **Additionally, the uptick in debt schemes signals a consistent appetite among Indian investors for fixed-income alternatives.**

More **long only** and **absolute return** strategies on the radar for new launches. **Debt scheme** are also picking up steam.

Exhibit 6.1

Which strategies are you considering for new fund launches / funds in the pipeline, with regards to CAT III AIFs?



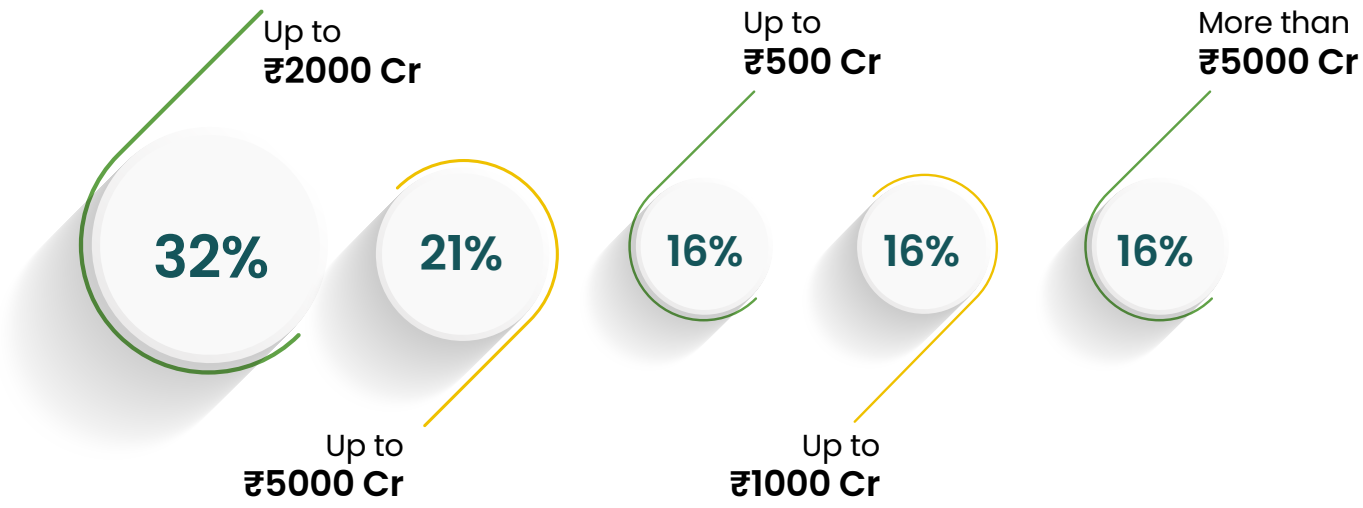
Long only	**47%**	11%	Debt funds
Multi Cap	**32%**	5%	Commodity funds
Absolute return	32%	5%	Market neutral
Multi Asset	26%	5%	Hybrid funds
Pure hedge funds	16%		

Source: IVCA - Eleveight industry interactions

Industry heavyweights mobilise: Key players planning to raise at least **`60,000 Cr** in the next 2 years

Exhibit 6.2

What is your target fund raise for CAT III AIFs in the next two years?



Source: IVCA - Eleveight industry interactions

> Category III funds employ a sophisticated derivatives strategy to generate superior risk-adjusted returns. Some of the funds aim at generating superior debt returns at comparable risk levels, while others target superior equity returns.
>
> The use of derivatives within SEBI approved limits allows funds to create a risk profile very different from conventional funds, and that will continue to attract HNIs interested in amplifying returns while diversifying their portfolios.
>
> Taxation is on the higher side, but the increasing volumes of derivatives will ensure scale can be built in such funds.

NANDIK MALIK
Chief Investment Officer | Avendus Capital Alternate Strategies

Could **GIFT City** present an **unexpected advantage** to CAT III AIFs, particularly **long short funds**?

The rise of GIFT City as a thriving hub for alternative investments is indisputable. Its robust regulatory framework and tax incentives have allured fund houses from across the globe. The landscape has witnessed a remarkable surge since April 2023, with the number of funds doubling to 124 funds[1], as of 31st Mar 2024. This impressive trajectory is a testament to GIFT City's emergence as a dynamic centre for AIFs.

Exhibit 6.3

Have you established any base in GIFT City or do you intend to establish one in the near future?



Source: IVCA - Eleveight industry interactions

Funds/schemes in IFSC resembling Category III AIFs:

Domestic tax laws govern the taxation of capital gains from equity shares. However, capital gains from non-equity instruments such as bonds and derivatives are exempt from taxation, aligning with tax treaties with popular offshore fund jurisdictions.

Furthermore, income generated from foreign securities remains untaxed. These funds and schemes benefit from a preferential tax rate of 10%, plus surcharges and cess on dividend and interest income. Foreign investors are also relieved of tax registration and filing obligations in India. The exemption on derivatives also provides an additional advantage to long short AIFs that face prohibitive taxation in domestic jurisdiction.

[1]Source: https://ifsca.gov.in/Directory/index/f63YeymdLdI=

Unwinding the **growth trajectory** of AIFs in **GIFT IFSC**

Introduction

Nestled in the vibrant landscape of Gujarat, India, stands Gujarat International Finance Tec-City (GIFT City), a symbol of India's aspiration to become a global financial powerhouse. GIFT City, as India's first and premier International Financial Services Centre (GIFT IFSC), embodies this concept, providing a robust regulatory framework and world-class infrastructure to facilitate international trade and finance. GIFT City has gained significant momentum in the recent years with around 400 offices and 26,000 employees operating in the area. The allure of GIFT IFSC lies in its array of benefits tailored to meet the needs of global investors.

Alternative Investment Funds (AIFs) in GIFT IFSC

AIFs play a pivotal role in the global financial ecosystem by channeling investment into non-traditional asset classes such as private equity, hedge funds, real estate, infrastructure, and venture capital. Within GIFT IFSC, AIFs serve as a channel for mobilizing capital from both domestic and international sources and deploying it across a diverse range of investment opportunities. As of 31 March 2024, GIFT City has registered 120 schemes and 114 fund management entities (FMEs) and raised USD 8,410 million in commitments, collected USD 3,948 million in funds, and made investments totaling USD 3,696.01 million. Notably, amongst these, 68 schemes are registered as Category III AIFs, having raised USD 2,586 million in commitments, collected USD 1,302 million in funds, and made investments totaling USD 1,209 million.[1]

Regulatory reforms

The regulatory framework was notified after an extensive consultation process in the form of the International Financial Services Centres Authority (Fund Management) Regulations, 2022 (FME Regulations), which came into effect in May 2022. This is an all-encompassing framework prescribing regulations for different types of funds, and asset management activities. The GIFT IFSC has witnessed rapid growth in registrations of FMEs and funds following the issuance of the FME Regulations.

Unlike the domestic regulatory framework for AIFs which seek to register and regulate 'funds', the FME Regulations regulate fund managers. Specifically, the FME Regulations adopt a risk-based approach to regulation: If the FME seeks to raise monies only from accredited investors or investors with a high investment appetite, the regulatory framework is more liberal. With a single registration, fund managers can launch funds more easily and quickly.

AIFs in GIFT IFSC are treated as non-residents under Indian foreign exchange laws, allowing them to invest freely in overseas companies without the need for separate regulatory approvals. This significantly broadens the scope of potential investment opportunities.

Separately, International Financial Services Centres Authority (IFSCA), the unified regulator, has introduced several operational flexibilities for AIFs in GIFT IFSC, such as the ability to create segregated portfolios for co-investments and to invest up to 100% of their funds in a single investee company. These measures provide greater structuring and operational efficiencies, bringing AIFs in GIFT IFSC on par with other international financial centers like Singapore and Mauritius. Having said that, GIFT IFSC should position itself as an innovation hub, not only embracing global standards in fund management practices but also pioneering new and innovative financial products which would help IFSC to differentiate itself in the global financial landscape and attract new investors.

Moreover, to onshore the offshore, tax neutrality is offered on relocation of funds from offshore jurisdictions to GIFT IFSC. The aforesaid tax benefit to funds relocating to the GIFT IFSC was extended till 31 March 2025.

Recent regulatory developments

IFSCA has introduced a significant regulatory development allowing non-banking entities registered as foreign portfolio investors (FPIs) with Securities Exchange Board of India (SEBI) to issue derivatives in GIFT IFSC, based on underlying Indian securities. These contracts, regulated by the IFSCA, mark a progressive step in bolstering GIFT IFSC's status as a global financial hub. Under erstwhile provisions, only banking units registered as FPIs with SEBI were permitted to issue derivative instruments with Indian securities as underlying assets in GIFT IFSC. This move is expected to enhance the market reach of non-bank FPIs, further integrating them into India's financial ecosystem[2].

Also, SEBI has long been exploring ways to enhance foreign portfolio investments in India by increasing participation from Non-Resident Indians (NRIs), Overseas Citizens of India (OCIs), and Resident Indians (RIs) in funds based out of the IFSC. In response to growing demand for more inclusive investment opportunities, the SEBI has recently approved a significant regulatory change, permitting NRIs, OCIs, and RIs to contribute up to 100% of the corpus of FPIs based in GIFT IFSC, under IFSCA's supervision[3].

Future prospects and regulatory enhancements

Despite the remarkable progress achieved, AIFs operating in GIFT IFSC are actively seeking additional relaxations from IFSCA to provide greater flexibility in fund structuring, simplification of compliance requirements, and introduction of targeted tax incentives for AIFs. Some of the key ask of the AIF industry is as under:

Regulatory

- The retail schemes can be launched by Registered FMEs (Retail) for pooling money from all investors or a section of investors (with no ceiling limit as to number of investors) through an offer document outlining the investment objectives across permissible asset classes. Unlike FME (Restricted) and Venture Capital schemes, which are categorized under Category I, Category II or Category III, there is no such classification specified for retail schemes in the FME regulations. This absence of categorization necessitates further clarification from the IFSCA.

- FME Regulations currently impose certain investment restrictions in case of an open-ended scheme by capping the maximum investment in unlisted securities at 25% of the scheme's corpus. While these restrictions are intended to mitigate liquidity risk, they may also act as a roadblock, specifically in cases where IFSC funds are proposed to be set-up as feeder funds for global funds. For greater flexibility and broader investment potential, the IFSCA should explore options such as removing this cap entirely or exempting investments in unlisted securities where the underlying asset is listed from the 25% limit. This adjustment could provide investors with broader investment choices while maintaining prudent risk management practices.

- Consider adopting the concept of passporting for funds. Passporting allows fund managers from IFSC to freely offer their financial products to investors in other jurisdictions, facilitating cross-border marketing and distribution. This mechanism, akin to initiatives like the ASEAN Collective Investment Schemes and the Asia Region Funds Passport, could streamline regulatory processes and enhance market access for IFSC based asset managers. IFSCA could explore reciprocal passporting arrangements with regulators from key international financial hubs such as the European Union, Singapore, USA, etc. Aligning IFSCA regulations with equivalent standards in these jurisdictions and recognizing third-country regimes under mutual recognition frameworks would promote global integration and attract international investors. Strengthening IFSC presence by mandating the appointment of local representatives in key international financial hubs could further bolster regulatory oversight and investor confidence in IFSC operations.

- SEBI (FPI) Regulations, 2019 provides that the FPI investing in India shall not be controlled by NRI/ OCI/ RI. However, this condition shall not apply if the FPI investing in India is controlled by a fund manager which is controlled by NRI/ OCI/ RI provided that such fund manager is appropriately regulated in its home jurisdiction and is registered with SEBI as a non-investing FPI. Thus, a FME controlled by NRIs/OCIs/RIs must obtain registration as a non-investing Category I FPI. Therefore, clarification is needed to confirm that this requirement does not apply if the FME entity is established in the IFSC as a branch of the Indian asset management entity or is wholly owned by the Indian asset management entity.

Tax

- Section 10(4D) of the Income-tax Act, 1961 (IT Act) provides that the Category III AIF in IFSC is entitled to exemption from tax on certain incomes streams, subject to the condition that all the units other than unit held by a sponsor or manager are held by non-residents. Issuance of carry or profit units is popular way to incentivise employees of FMEs. Even SEBI AIF Regulations acknowledge the concept of such profit units allowing employees of the sponsor or manager to subscribe to the same without requiring them to invest any capital. However, where such carry or profit units are issued to resident employees, the exemption under section 10(4D) of the IT Act is compromised. Requisite amendment should be made to allow said exemption where units are issued to resident employees. Furthermore, this condition also acts as a hindrance for master feeder structures to be set-up in IFSC. Hence IFSC based entities investing in such AIFs should be excluded from this restriction.
- Section 80LA of the IT Act provide 100% corporate tax deduction, for 10 consecutive years out of a block of 15 years starting from registration with the IFSCA, on the income earned by the unit in IFSC from its business for which it has been approved. Such deduction should be extended for all streams of income, including capital gains, taxable under section 112, 112A and 111A of the IT Act.
- The existing income-tax return filing forms does not provide field to insert distributions received from Category III AIF on which taxes are already paid.

Conclusion

The emergence of AIFs in GIFT IFSC signifies a paradigm shift in the global financial landscape, with GIFT City poised to emerge as a preferred destination for alternative investments. As regulatory frameworks and market dynamics evolve, GIFT IFSC stands ready to unleash a new era of financial innovation and prosperity. With its strategic advantages, supportive ecosystem, and commitment to excellence, GIFT IFSC is well-positioned to shape the future of alternative investments in India and beyond.

Contributed by:
Mr. Vikram Bohra, CA
Mr. Apurva Rathi, CA
Mr. Gagandeep SIngh, CA

[1] IFSCA Bulletin published for the period January to March 2024.

[2] IFSCA Circular No. IFSCA/CMD-DMIIT/NBE-DI/2024-25/001 dated 2 May 2024

[3] IFSCA Circular No. IFSCA/CMD-DMIIT/NBE-DI/2024-25/001 dated 2 May 2024

Unlocking potential: The role of regulations in the success of CAT III AIFs

The Government of India wields significant influence over the landscape of CAT III AIFs through regulatory frameworks that balance investor protection with industry growth. As regulations evolve, stakeholders grapple with the dual mandate of ensuring compliance while harnessing prospects for innovation and investor empowerment. The responses shed light on the regulatory levers that can fuel and hinder the expansion of CAT III AIFs in India.

Enabling regulations: The key aspect that may will give a fillip to the prosperity of CAT III AIFs

Exhibit 6.4

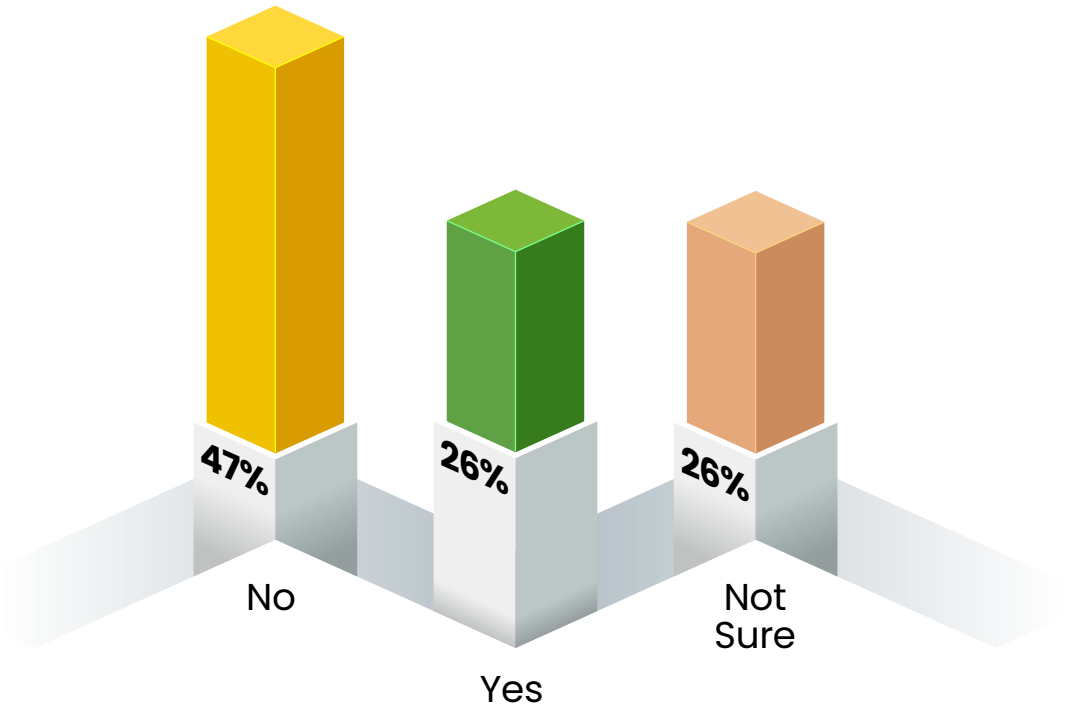
What will enable the growth and acceptance of CAT III AIFs in India?

More enabling regulations	**63%**
Educational initiatives for investors	**58%**
Greater product innovation and options/ varieties for the investors	42%
Training and support for distributors	32%
Greater representation from the industry bodies at various levels	32%
Increased marketing / promotional efforts	11%
Greater incentives for distributors	5%
More fund managers delivering on the promise of risk adjusted returns	5%

Source: IVCA - Eleveight industry interactions

Exhibit 6.5

Have CAT III AIFs gained greater acceptance among the investors, becoming a pull product?



Source: IVCA - Eleveight industry interactions

Regulations are continually evolving with a dual purpose:

1. Establishing guardrails to safeguard investors from mis-selling and preventing malpractice within the industry
2. Facilitating the growth and prosperity of the industry through collaboration with key stakeholders

While CAT III AIF regulations have evolved over time, industry stakeholders still feel the need to take necessary action to enable manufacturers and wealth managers to serve their investors with the best strategies and products.

CAT III AIFs target investors who are already exposed to traditional products and may be better informed about AIF's product constructs. To ensure manufacturers compete on equal footing with global and domestic counterparts, **there is a need to eliminate leverage limits, enhance flexibility in product innovation, enable pass-through taxation, and allow tax-free churn similar to MFs.** These initiatives promise increased opportunities for innovation, ultimately granting investors access to top-tier products.

Although knowledge sharing within AIFs has improved over the years, effectively communicating this knowledge to investors remains a persistent challenge. Therefore, there is a pressing need for concerted efforts towards targeted knowledge sharing and transfer. Prioritising the standardisation of information for investors and wealth managers should serve as the initial step in this endeavour.



Archit Lohia
MD & CEO
Career Topper Online Education Pvt. Ltd.

> Archit is an active investor in Global AIF Market and Founder of CareerTopper -A pioneer in Alternatives Education in India

Urgent Call for **structured education** and **training** with the AIF Landscape

AIFs in India have invested more than `4 trillion in the last 11 years, with 19% of these investments being made in the last one year itself. This is akin to the yearly growth of the Indian MF industry, in the last 5 years. This sets the premise for a much-awaited structured education on AIFs, focussing on investors, service providers, intermediaries as well as students.

Why the urgency?

AIF managers in India are devising innovative strategies to offer non-traditional exposure to their investors. However, these strategies may come with their own set of risks or structural drawbacks. The recent RBI crackdown to prevent 'evergreening of loans' via AIF route is one such example. Similarly, some securitized debt instruments which promise IRR of 15-20% over 3-5 years tenure, are witnessing default risks and legal actions. Distributors, custodians, and all service providers in the ecosystem should be continuously upskilled and made aware of the investment mechanisms, inherent risks and its impact on risk-return profile of every end investor. Similarly, it is crucial that HNI investors, FDI and FVCI investors are made aware of the inherent risk in various AIF structures, their underlying strategies, country-specific risks, and macro-economic factors impacting their portfolio.

Formalised v/s sporadic education on AIFs

Private Placement Memorandum (PPM) of an AIF gives most of the information for an investor to make informed decisions, and distributors to market the fund schemes. Monthly and quarterly performance reports also ensure that investors know about funds' activities for that period. But is that enough for long-term sustainable growth of the Indian AIF industry? The Indian AIF industry will witness sustainable growth if good market practices are followed by all intermediaries, more importantly the distributors. Distributors have a fiduciary responsibility to ensure that any AIF scheme marketed by them is suitable to investors, as per their risk-return profile. This responsibility can only be fulfilled if distributors are aware of global best practices and have conducted thorough due diligence on manager's basis the principal contractual terms, fee structures, regulatory compliances, valuation mechanisms, taxation norms and ESG norms. Apart from fund structures, changing market dynamics, regulatory updates, global-macro factors, and government reforms have a continuing impact on investor return. For instance, the Indian Government is promoting the GIFT-City, Gandhinagar, as an International Finance Services Centre (IFSC) for global investors as well as fund managers. Taxation reforms in GIFTCity impact all investors, which calls for ongoing awareness on important policy changes and its impact on investors' returns. Intermediaries need not be reminded that Institutional or HNI investors have a specific investment objective, and they continuously monitor global funds for better alternatives. Our market regulator is ensuring that registered intermediaries go through formal training and Regulatory Certifications, at frequent intervals. In my view, a series of formalised, investor-focussed programs on "AIF Market Developments" is also necessary at frequent intervals, by associating with respective fund managers.

What do we need to ensure structured education?

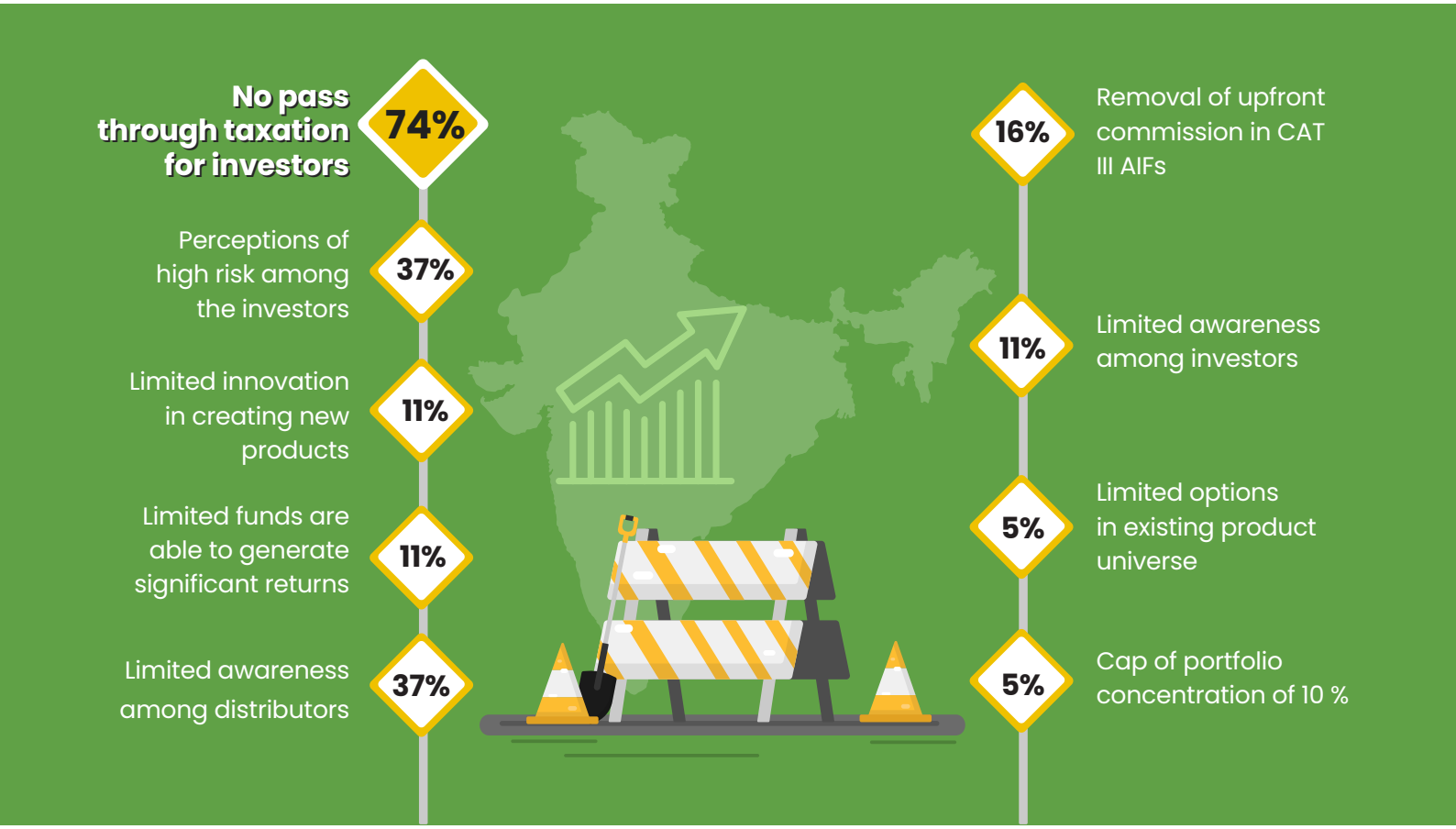
Continuing education through engagements with AIF industry experts is a key requirement today, so that investors and intermediaries are given industry-relevant knowledge/updates. Similarly, training programs for young finance students is key to a flourishing AIF market in future. CareerTopper is a pioneer in AIF Education providing focussed programs on AIFs, relevant for the Indian market and delivered by industry experts sharing their practical in class with learners. We believe that AIF Education Programs need to be structured in a manner which focuses on the long-term India story and serves a "Gold Standard " for not only Indian investors and intermediaries, but also for our foreign counterparts. This will eventually help to build investor confidence towards India in the long-term, without worrying about US bond yields, global war situations, volatility in commodity pricing and economies of other major superpowers.

Taxation is posing the **biggest challenge** to CAT III AIFs; even investors concur on the need for **Tax Clarity** and **Tax Parity**

Taxation looms as the towering obstacle plaguing CAT III AIFs. It is the echoing concern among fund managers and investors alike. The absence of pass-through taxation not only complicates financial affairs but also adds layers of complexity to investor decision-making processes.

Exhibit 6.6

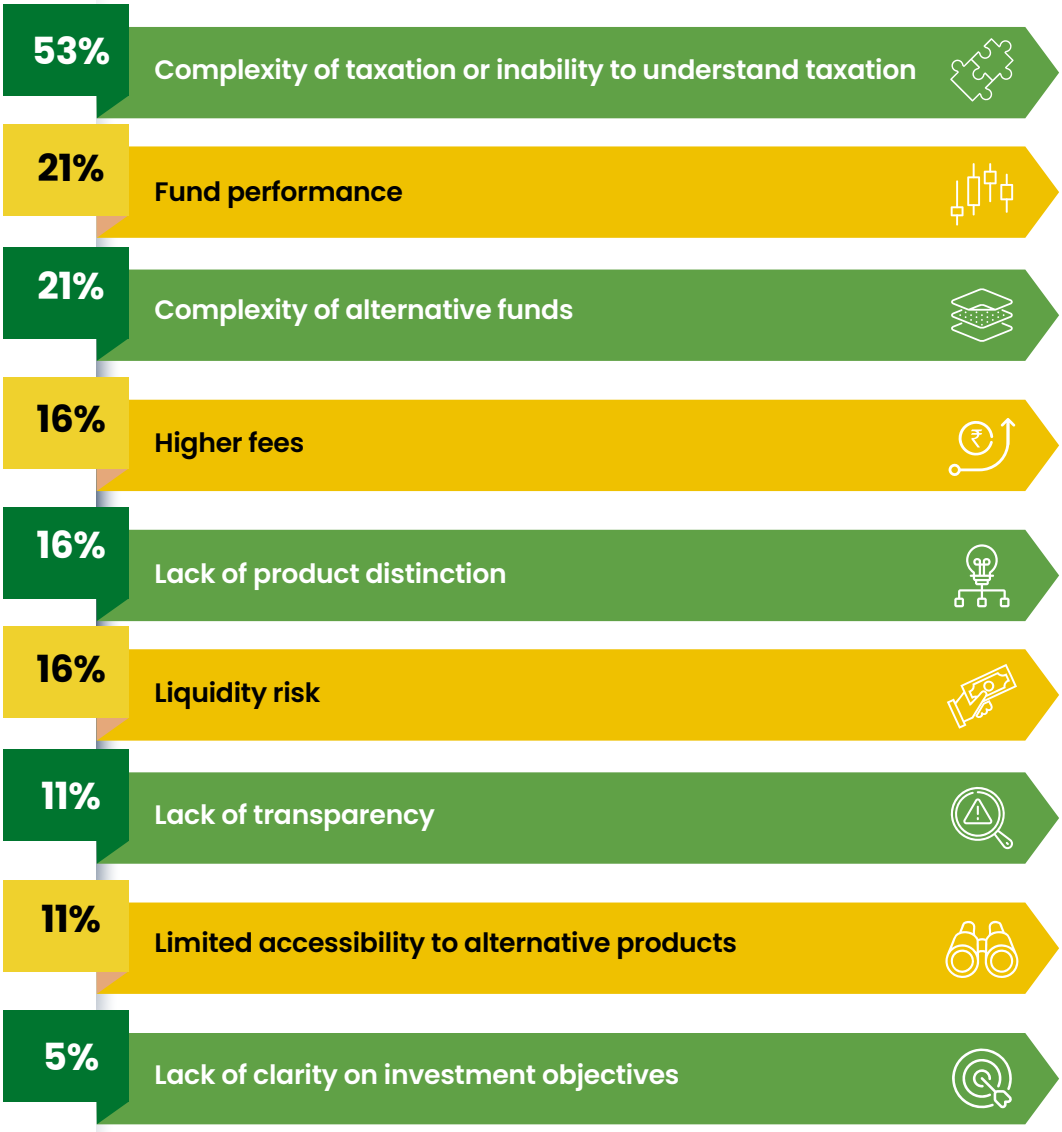
What do you think is the biggest challenge to the growth of CAT III AIFs in India?



Source: IVCA - Eleveight industry interactions

The absence of pass-through taxation in CAT III AIFs is a widely acknowledged challenge among industry stakeholders. The additional hurdles include limited awareness among distributors and the perception of elevated risk among potential investors. A persistent lack of awareness prevails despite increased efforts by distributors and wealth managers to promote AIFs. This indicates that the manufacturers need to communicate in a more standardised and consistent manner with their audiences.

What have been the critical concerns raised by investors while investing in CAT III AIFs?



Source: IVCA - Eleveight industry interactions

The complexities surrounding product structures, objectives, and taxation within CAT III AIF present significant obstacles for investors. This again circles back to the critical need for standardised communication practices and the need to empower wealth managers to convey pertinent information to investors using appropriate terminology effectively.

Critical **regulatory suggestions** for growth of Category III AIFs in India

Tax pass-through status for Category III AIFs

- Provide tax pass-through status to Category III AIFs, similar to Category I and II AIFs, to ensure only one level of taxation at the investor level
- This will align with global best practices where commingled funds have an EET (investors pay tax on distribution) or ETE (investors pay tax when fund earns income) regime, with taxation at the investor level
- Concerns around non-resident investors escaping tax can be addressed by:
  - Introducing attribution rules to tax income attributable to non-resident investors at the fund level
  - Allowing limited non-resident participation (e.g., up to 10% of corpus) in Category III AIFs to avail pass-through status

Sub-categorization of Category III AIFs

- Sub-categorize Category III AIFs into:
  - Category III-A: Long-only funds
  - Category III-B: Long-short and other hedging strategies
- Provide tax pass-through status to long-only Category III-A funds, as their investment strategy is akin to Category I/II AIFs, except they invest in listed securities
- This will promote growth of long-only funds and attract domestic institutional capital from insurance companies, pension funds, and banks into long short hedged strategies

Simplifying accreditation of investors

- Further simplify the process of accreditation of investors for Category III AIFs
- Provide benefits such as increased leverage permissibility for Category III AIFs with only accredited investors
- Seek other benefits that hedge funds globally enjoy when they have only accredited investors

Implementing these critical regulatory suggestions will provide clarity on taxation, enable tax pass-through for long-only Category III AIFs, and simplify accreditation of investors. This will unlock the potential of Category III AIFs, promote growth of the industry, and attract more domestic and foreign capital.

Contributed by:
IVCA

New avenues for Category III AIF growth

One of our key priorities at IVCA has always been to find opportunities for non-linear growth in industry AUM. And opening insurance and pension funds to invest in Category III AIFs is one of these game changers.

Insurance and pension funds represent long-term patient capital from policy holders and retirement savers, respectively. They represent $121 billion and $38 billion of AUM respectively, and hence even a small allocation to Category III AIFs can help the industry grow by 2-3x overnight.

Insurance funds are already investing in Category I and II AIFs as part of their "other investments." Life insurance companies are limited to investing 3% of their funds and no more than 10% of an individual AIF scheme, whereas for general insurance companies the limit is 5% and 10%, respectively. Insurance regulations do not permit investments in funds that take leverage or engage in borrowing. And the insurance companies themselves can invest in equities and fixed income in a long-only manner. Which leaves us with no-leverage low-net exposure long/short funds as the most interesting new asset class opportunity. These funds are especially useful in the implementation of non-participating and annuity-based policies.

Retirement funds presently do not invest in any alternative investment funds because of concerns around liquidity and valuation. Category III AIFs are the ideal first step for PFRDA to take because with the underlying investments being traded daily, daily liquidity and fair mark-to-market will not be a challenge. Retirement funds are already making investments in equities and fixed income in a long-only manner and hence, once again the most suitable choice is no-leverage low-net long/short funds.

No-leverage low-net exposure long/short funds can help both improve risk-adjusted returns for policy and shareholders and add diversification since insurance companies and pension funds are not trading in equity derivatives. Distinguishing features of these funds are their low correlation to both equity and bond markets and their low drawdowns and volatility. Returns for an AUM weighted industry composite of no-leverage low-net long/short funds between March 2017 and March 2024 are in the table below. These funds have an extremely attractive Sharpe ratio of 3.96 and have delivered positive returns in 93.9% of months – demonstrating high consistency of performance. Their beta to both NIFTY and the CRISIL Composite Bond Index is close to zero. In fact, a negative beta to the bond index is beneficial to insurance companies who have large-fixed income investments with a long maturity

Item	Value
Compounded Annual Returns	13.01%
Standard Deviation	3.29%
Sharpe Ratio	3.96x
Max Drawdown	-2.64%
% of Positive Months	93.9%
% of Positive Quarters	100%
% of Positive Years	100%
Beta to NIFTY Total Return Index	0.05
Beta to CRISIL Composite Bond Index	-0.12

In summary, enabling investments from insurance and pensions funds into Category III AIFs and in particular no-leverage low-net long/short funds can be a win-win for policy holders, shareholders, and retirement savers on one hand and asset managers and the AIF industry on the other hand.

Contributed by:

Mr. Nalin Moniz

Charting the course for AIFs in India: Key strategies for future success

AIFs in India reveal a dynamic landscape characterised by innovation and regulatory complexities. Here are the key areas that can be instrumental in shaping tomorrow's informed investors and propelling the AIF industry to new heights of success.

01

Viewing CAT III AIFS with a different lens

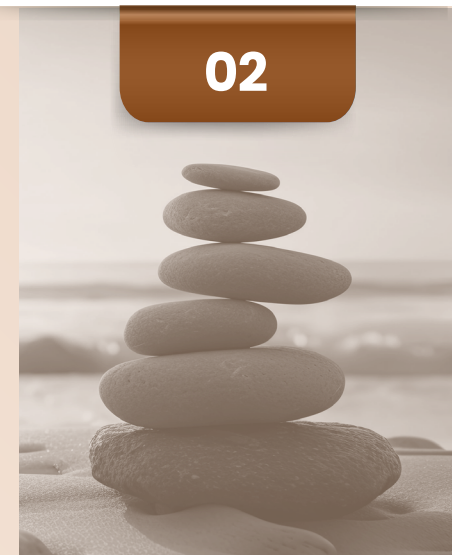
CAT III AIFs play a pivotal role as a gateway to diversified portfolios. These AIFs encompass various underlying asset classes and employ diverse strategies to construct portfolios for accredited investors, HNIs, UHNWIs, and institutional investors. Recognising their unique nature, it is crucial to provide them with differential treatment and acknowledge them as a vehicle that fosters innovation and creative strategies for fund managers within regulatory parameters.



02

Pioneering regulatory paradigms

From the regulator's perspective, a delicate balance exists between fostering innovation and safeguarding investor interests. While the initial stages of an industry may warrant heightened safeguards, continuous evaluation becomes imperative as the sector evolves. The AIF industry in India is just a decade old, so taxation regulations should lean towards promoting growth at this juncture.



03

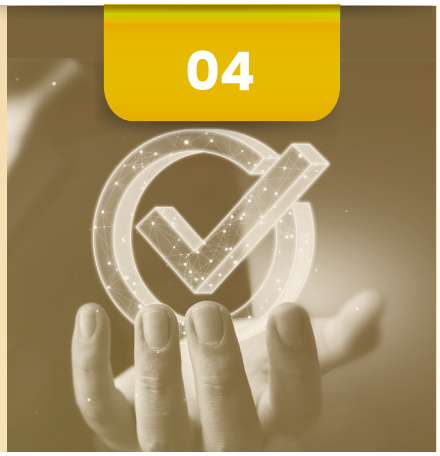
Driving digitisation in the AIF landscape



The AIF ecosystem necessitates comprehensive digitisation initiatives encompassing data synchronisation, standardised reporting, platform facilitation, and seamless investor onboarding for expansion. Also, as service providers gain economies of scale, the cost efficiencies trickle down to manufacturers and stakeholders as the ecosystem matures.

04

Standardisation as a key to clarity and cohesion in AIF operations



The AIF industry requires a unified repository similar to AMFI or APMI. This will ensure the streamlining of industry communication and dissemination of information, paving the way for a more efficient industry.

05

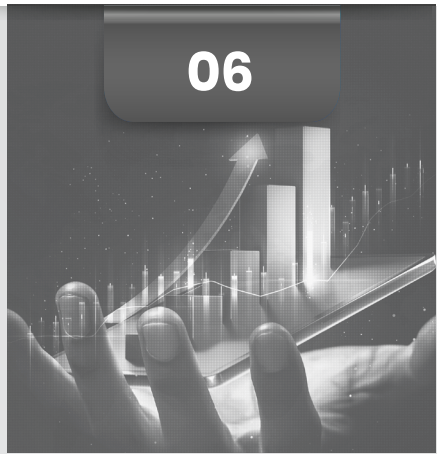
Shaping tomorrow's informed investors



Allowing AIFs within MFs to allocate a portion of their investor awareness budget towards educating investors will go a long way. Even if just ₹300 Cr is channelled towards educational initiatives, relationship managers will get trained, and investors will gain access to information. If investors are not educated, it is possible that the failure of one AIF could spell doomsday for the entire industry. On the other hand, investing in investor education can take the industry to new heights. Hence, prioritising expenditure on education is imperative before investors dismiss the category as overly complex.

06

Redefining fund evaluation. Adhering to the performance projected to the investor



Instead of focusing solely on standardising benchmarks, the AIF industry should prioritise comparing actual performance to projected returns. Given the significant differentiation among funds, categorising them may not always lead to accurate comparisons.

IVCA CAT III fund members

Sundaram Alternate Assets Ltd.

Founded in 2018, SAA is a Sundaram Finance group company, that caters to the investment needs of high net-worth individuals. The array of offerings includes Portfolio Management Services (PMS) and Alternative Investment Funds (AIFs). Sundaram Alternates provides tailored solutions to help meet your long-term wealth creation goals. SAA has a fund management team with over three decades of expertise in real estate and equity spaces and strategies that are built on new-age industry practices, sound operating models, data-backed research, and transparency.

Abakkus Asset Manager LLP

Abakkus is an alpha focused boutique asset manager managing over INR 25,000 Crores in Indian listed equity. With their expertise and unique investment philosophy which is driven by fundamentals, Abakkus has left no stone unturned to become the beacon of the alternate asset industry. Abakkus follows a bold investment strategy consisting of the unique MEETS Framework which focuses on investing with an endeavour to generate alpha over the markets than just allocation within benchmark index. In just 5 years of incorporation Abakkus has established itself in the Indian equity horizon both in terms of performance and growth in assets.

360 One Wealth and Asset Management

A wholly owned subsidiary of 360 ONE WAM (IIFL Wealth Management Ltd), incorporated in 2010, 360 ONE AMC (formerly known as IIFL AMC) is an India focused asset management company, offering products through various platforms across public equities, unlisted equities, credit, and real estate.

The organization wants to leverage investment team capabilities and Company's leadership focuses on people, product, process, and distribution to create differentiated strategies, consistent efforts are going on to build platform with capabilities across all major asset classes and verticals and focus on expanding into large domestic distribution partners.

Aditya Birla Sun Life AMC

Founded in 1994 & one of the oldest AMC in India, Aditya Birla Sun Life AMC Limited is a JV between Aditya Birla Group & Sun Life Financial Inc since 2001. It is one of the top AMCs in India with MF AUM of over 2.96 lakh Cr (October 2023) and Over 7.8 million investor accounts (October 2023). It manages / advises Rs. ~13.4K Cr. of alternate & offshore assets as on October 2023. The firm offers mutual fund, portfolio management services, alternate & offshore investment solutions to HNIs and Institutions. It has a 13 member dedicated alternate investment team for Equity, Fixed Income and Real Estate, with a cumulative experience of 100+ years.

Alchemy Capital Management Pvt Ltd

Alchemy Capital Management Pvt Ltd (Alchemy), was set up in 1999 for the purpose of providing Portfolio Management & Investment Advisory Services to its clients. Alchemy India originally got its PMS license in year 2000 and started its operations in 2002 with its first client.

AlphaGrep Investment Management

AlphaGrep IM is the brainchild of the team at AlphaGrep, which has been at the forefront of algorithmic trading for over a decade.AlphaGrep is a successful multi-asset multi-strategy proprietary trading firm established in the year 2010 and is well known for its quantitative trading and low latency platforms. By volume, it is one of the largest participants on domestic exchanges and is an active participant in multiple global exchanges.

Carnelian Asset Management

Carnelian is a boutique investment management firm founded by industry veterans in April 2019 with an aspiration to create a best-in-class asset management platform known for its values, expertise and best practices. We believe in investing in "quality at a reasonable price" and "risk diversification through forensic analysis"

DSP Asset Managers

One of the premier asset management companies in India, with over 30 years of track record of investment excellence. DSP India Enhanced Equity SatCoRe Fund and DSP India Enhanced Equity Fund seek to maximise long term risk-adjusted returns through the use of a long and / or short equity strategy from a portfolio that is substantially constituted of equity securities and equity related securities of issuers domiciled in India. DSP High Conviction Fund Series 2 - The Investment Manager shall endeavour to create a concentrated portfolio (typically buy-and-hold), comprising of 10-30 securities. The Investment Manager endeavours to follow an approach which involves investing in securities across the market capitalization range. The focus will be to identify a set of relatively undervalued securities, in comparison to its intrinsic value derived from our investment framework, across sectors, and market capitalization with focus on superior risk-adjusted.

Dolat Capital Market Pvt. Ltd.

Dolat Group is one of India's leading derivatives and stock market participant. Through our 60+ years journey catering to the unique needs of our savvy clientele, we have focused on ensuring that the investment wheel functions smoothly, rather than on re-inventing it. Dolat Capital Market Pvt. Ltd. is an imperative part of the Dolat group & considered as a pioneer in mid-cap research, derivatives, arbitrage, algo trading strategies and market making in the Indian financial ecosystem. Dolat Capital boasts of an early mover advantage in above areas which indicates sharp focus on innovation and market assessment.

Northern Arc Investments

In line with the work and ecosystem created by our parent company Northern Arc Capital, we facilitate investments that ensure easy access-to-finance for companies that have a demonstrable track record in increasing the penetration of financial services in India.

One up financial advisors LLP

The fund has been promoted by an Ultra HNI family with a successful capital market background to faciliate investments by Ultra high networth individuals / entities, primarily to explore and avail opportunities in Equity markets (both listed & unlisted), Debt instruments and Derivatives.

Whitespace Alpha

Whitespace Alpha is a diversified asset management company that creates innovative and high growth investment solutions for our clients. We identify opportunities, implement sophisticated strategies and provide long term superior risk adjusted returns for our investors.

CAVI Capital

CAVI Capital is the sponsor of CAVI First Principles Trust, a boutique Category III AIF that specializes in fundamental, value-oriented investing for long-term wealth generation. The firm's aim is to generate high absolute returns by participating in investment opportunities offered by Indian public equity markets. CAVI Capital's investment approach is grounded in business valuation and unique insight. We are guided by First Principles, placing fundamental constructs at the forefront of every investment decision.

The team at CAVI Capital is led by seasoned professionals who bring a wealth of experience from the realms of finance, investment banking, entrepreneurship and personal finance.

Kotak Alternate Assets

Kotak Alternate Assets, a part of Kotak Mahindra Group, is a leading Indian alternative assets manager. The firm has raised / advised over ~INR 65000 cr in funds across the following asset classes – Private Credit, Real Estate, Private Equity Infrastructure , Discretionary Solutions - all led by independent investment teams. Kotak Discretionary Solutions manages multiple Category III AIF schemes that are multi-asset, multi-strategy AIFs, investing across equities, fixed income and alternate fixed income instruments.

The funds we manage are across different risk profiles. Details of these are:

Kotak Iconic Fund – 100% Equity portfolio

Kotak Optimus Aggressive Scheme – Strategic allocation 80% Equity:20% Fixed Income, REITs, InvITs

Kotak Optimus Moderate Scheme - Strategic allocation 50% Equity:50% Fixed Income, REITs, InvITs

Nippon Life India AIF Management (NIAIF)

NIAIF provides investment opportunities through various unique offerings across asset classes (Category II & Category III). The current offerings include products across the following asset classes:

Listed Equity - Nippon India Equity Opportunities AIF Scheme 9 (NIEO9) "Undiscovered India Opportunity"

VC FoF – NIDI 2

Residential RE Credit - NIYP4

Private Credit – NICO – I

NIAIF has undertaken final closures of 8 Cat-III Long-only equity schemes with total fund-raising of over ~Rs. 3,100 crores (As of 31-May-2024). Given the commendable track record, NIAIF recently launched NIEO9 in November 2023 (fundraising underway). The fund aims to build a well-diversified & high-quality portfolio of 20-30 small-cap companies (70-90% allocation to smallcap – minimum 51%). Target Fund size: Rs. 1,000 crores (including GS of Rs. 250 crore) which increases the available investment universe. Opportunistically allocate upto 15% of commitment amount towards pre-IPO companies.

Nuvama Asset Management

Nuvama Asset Management is the asset management arm of the larger PAG-backed Nuvama Group (NSE: NUVAMA) – a fully integrated wealth and asset management platform and a trusted name amongst over a million customers, managing assets of over INR 3.5 trn. Nuvama Asset Management offers client-aligned investment solutions across private markets, listed markets and real assets to over 3500 clients managing assets of ~ INR 7500 cr.

Our maiden equity fund– Nuvama Enhanced Dynamic Growth Equity [EDGE] Fund, offers a unique solution to manage market fluctuations by cushioning the downfall while providing an alpha over the long term by opening up access to both long and short opportunities within the market. EDGE has outperformed the benchmark by 5%+ in an upward-trending FY24. In contrast, in a roller coaster FY23, the fund delivered an alpha of 8% against Nifty and the large-cap mutual fund category average.

Avendus Asset management

Avendus is a financial services firm that offers bespoke solutions in asset management, credit solution, investment banking, institutional equities and wealth management. The Avendus Absolute Return Fund, a Category III AIF, dynamically allocates between long and short positions, utilizing buy and sell options alongside futures. It aims to invest in equities and derivatives expected to appreciate, while short selling those anticipated to decline, thereby moderating portfolio risk.

The Avendus Enhanced Return Fund - Series II, also a Category III AIF, seeks to achieve equity-like returns with lower risk relative to the Nifty 50 Index over time. It invests 70-85% in long-only portfolio, with the remainder in a long/short portfolio to enhance returns or mitigate downside risk.

The third fund in the Category III AIF offering basket is the Avendus Equity Advantage Fundwhich combines a long-only strategy with a long-short overlay to generate consistent, long-term equity returns with lower drawdowns than the Nifty 50 Index.

ChrysCapital

Founded in 1999, ChrysCapital is one of the largest and most established India-focused investment firms. Clarus is ChrysCapital's public market fund focused on making long-only investments in listed Indian companies. Public investments have always been part of the ChrysCapital DNA with $2 billion invested across almost 50 listed investments through the private equity funds. Clarus was launched in May of 2023, with a view to separate the listed investments from the private equity investments.

Investment Philosophy of the fund is: Growth at a reasonable price, fundamentals driven investing, backed by 20+ years of market experience, bottom-up research.

Neo Asset Management

Neo Asset Management, the asset management arm of Neo Wealth & Asset Management, provides credit and regular income solutions to client needs across various asset classes in India - Private Credit, Real Assets and Core Credit. It is driven to build India's preferred Alternatives Asset Management platform, focused on inflation beating regular income products generating superior risk adjusted yield for clients. Very recently Neo Group has raised USD 35 mn as growth capital from Peak XV Partners (erstwhile Sequoia India) to further catalyze initiatives at Neo. In a short period of 2 years, Neo advises more than 1500 clients with INR 30,000 Cr. of AUA and over INR 6,000 Cr. of AUM.

Tata Asset Management

Tata Asset Management Private Limited (TAMPL), established in 1994, is among the oldest asset management companies in the country. Tata Absolute Return Fund endeavors to mitigate risk and delivers consistent returns with a

superior risk-reward profile. Tata Equity Plus Absolute Returns Fund aims to conduct investment activities and adopt a 'dual' portfolio strategy to generate long term capital appreciation, with lower volatility compared to broader equity market.

Unifi Capital

Unifi Capital is a SEBI-registered portfolio manager and acts as a sponsor and manager for three active Category-III AIFs. Its subsidiary entity is registered with the IFSCA as a fund management entity focused on inbound foreign capital from institutional investors and family offices. The firm has a team of professionals located in GIFT City, Gandhinagar and currently manages a little under USD 100 mn.

Unifi Capital serves about 12,000 clients across 22 states, many of whom are nationally respected figures in industry, science, and various professions. The firm's approach has served its clients well over the years, and it has been able to expand its presence to Bangalore, Hyderabad, Mumbai, Delhi, Kolkata and offshore (GIFT city). Unifi Capital's combined AUM as of May 2024 is about USD 2.9 Bn in listed equities and debt via PMS, AIF, and GIFT platforms.

Emkay Investment Managers Limited

Emkay Investment Managers Limited (EIML) is the Asset Management arm of Emkay Global, a 27-year-old financial services group. EIML is a SEBI-registered portfolio manager and also investment managers for category III AIF's, both open ended (Emkay Capital Builder Fund) and closed ended (Emkay Emerging Stars Fund – Series I to VI) . EIML has established a proven strong track record of more than 11 years under PMS and are managing AIF's for more than 6 years. EIML has successfully returned Rs740cr+ (pre-tax) to its investors from AIF, much before the stipulated time of the close-ended funds (Emkay Emerging Stars Fund – Series I to IV). EIML offers multiple PMS & AIF strategies to be invested in listed Indian equities. EIML client list includes marquee Family Offices, HNIs, Corporates, NRIs & Trusts.

Aequitas Investments

Aequitas was started in Feb of 2013 by Siddhartha Bhaiya and Neerav Shah as a PMS fund house and has since grown into one of the country's top-performing fund houses. The firm was started with the objective of transforming the wealth management industry by focusing on generating returns rather than garnering AUM. Currently, the fund house manages upwards of $600 Mn providing clients with the option to invest not only in Indian equities but also in international markets. Aequitas works with a very niche global clientele comprising UHNW individuals, family offices, and Institutional Investors with a direct relationship with all the clients. The firm invests in high-quality listed companies that are industry leaders with a potential for long-term wealth creation.

3P Investment Managers
Edelweiss Asset Management
ITI Group
Malabar Investments
SBI Funds Management
Volvin AIF
White Oak AMC
Negen Capital
Varanium Group
Divinion Dynamic Fund
Hill Fort Capital

Depth of Research

This report stems from surveys and interviews conducted with C-level executives from leading AIF manufacturers and wealth managers in India. Specifically, insights were gathered from IVCA members through individual interactions. These primary findings were enriched by Eleveight and IVCA's proprietary research, intellectual property, and client engagements.

The research was carried out by Eleveight, Eleveight is a research and consulting firm built on a foundation of robust research, analytical rigour, and succinct articulation.Eleveight specialises in empowering clients to make informed decisions through comprehensive primary and secondary research, strategic consulting, and support in execution.

Eleveight's team comprises researchers, industry experts, and practitioners with substantial experience in successfully delivering large-scale projects for clients worldwide and within local markets.

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