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PROMOTING ALTERNATE CAPITAL ECOSYSTEM

CAT III Accelerated

The Rise of India's Agile Capital

Powered by
ELEVEIGHT

Foreword



Rajat Tandon
President, IVCA

India's capital markets are evolving at an unprecedented pace, powered by a combination of regulatory agility, entrepreneurial energy, and growing institutional participation. Within this dynamic environment, Category III AIFs have emerged as a powerful expression of India's investing ambition—offering sophisticated strategies, active risk management, and alpha-driven outcomes for a diverse pool of investors.

At IVCA, we remain committed to supporting this evolution as an active catalyst. Over the past year, we have engaged deeply with regulators and stakeholders to resolve long-standing complexities in the CAT III ecosystem. These include advocating for tax clarity to avoid double taxation, proposing sub-categories for long-only and long-short strategies to reflect ground realities, and recommending a recalibrated leverage framework to unlock greater capital efficiency. Each of these issues directly impacts how CAT III funds are structured, managed, and scaled—and IVCA's focus has been to ensure that investor protection and innovation go hand in hand.

As this report and summit reflect, the ecosystem is already demonstrating both momentum and maturity. From new product structures like semi-liquid credit to India's increasing relevance as a global hedge fund destination via GIFT City, the signs are clear: Category III AIFs are not just participating in India's financial future—they are helping to shape it.

I would like to thank all our member funds, partners, and knowledge contributors whose insights have shaped this year's report and the broader discourse. We look forward to continued dialogue as we build a stronger, smarter, and more globally aligned alternate capital industry—together.

Executive Summary



Upasana Koul
Co- founder, Director
Eleveight

CAT III commands the flow — highest growth across 1, 3, and 5 years

With ₹2.3 lakh crore in commitments, 360 registered funds, and nearly 500+ schemes, the Category III AIF universe has expanded rapidly in both scale and strategic depth. Some fund houses manage a single scheme, while others run up to 24—signalling growing segmentation, manager conviction, and product specialisation. CAT III has delivered the highest growth in commitments across 1, 3, and 5-year periods.

Long-only goes multi-cap, long-short leans absolute return

Long-only funds continue to favour broad-based exposure, with multi-cap and market-cap agnostic themes dominating new scheme launches. On the long-short side, absolute return frameworks are the dominant construct—underscoring a shift toward capital protection and cycle-resilient strategies. Together, they reflect the maturing sophistication of India's Category III AIF space.

Quantitative strategies: the next frontier in Category III AIF innovation

Quant funds are emerging as a major theme in India's AIF landscape. With increasing institutional interest and rising manager adoption, data-driven, systematic investing is carving out a strong niche. Strategies like market-neutral, statistical arbitrage, and CTAs may draw attention for their precision and scalability.

Large Wealth managers lead fund raise preference- family offices catching up

Large wealth management outfits continue to dominate the fund raise ecosystem, using their distribution strength to scale AIFs. However, family offices are stepping in with sharper strategies and specific demands signalling a more competitive, innovation-driven market ahead.

GIFT City is powering globalisation

The GIFT City platform is helping Indian fund managers tap into the global Indian diaspora, especially through CAT III funds. From regulatory flexibility to taxation advantages and 100% NRI contributions allowed for FPIs based in IFSC, the opportunity to globalise Indian alternatives is now real and scalable.

Executive Summary



What fund managers are planning for FY26

Multi-cap strategies lead as the top choice for new launches, given their flexibility and breadth. Long-short strategies, particularly long-bias and market-neutral, are gaining favour for downside protection. Multi-asset approaches across equity, debt, and commodities are also rising as diversification tools.



SIFs are a regulatory innovation to watch

Specialised Investment Funds (SIFs) create a new middle path between mutual funds and PMS, with features like long-short access, customised redemptions, and a lower entry threshold of ₹10 lakh. They offer structured access with transparency and could reshape how investors access sophisticated strategies. Fund managers are excited about new opportunities to penetrate the market further using SIFs. Established Mutual Funds may take a faster first step.



Mixed signals on regulatory clarity

43% of fund managers remain neutral on recent regulatory changes, while 29% see no positive impact. The ask is clear: better clarity on taxation, smoother operational guidance, and more flexibility in execution and compliance norms.



Structural challenges still exist

Fund managers continue to face persistent hurdles—performance sharing restrictions, lack of distributor education, and limited availability of long-short talent. The need for tax parity with mutual funds and transparent performance disclosures remains a common refrain across the board.



₹7.5 lakh crore in sight by 2028

If current momentum continues, CAT III AIF commitments could reach ₹7.5 lakh crore in the next three years. ~60% of managers expect growth between 15–30%, and another 21% project even faster expansion. The opportunity is real—and accelerating.

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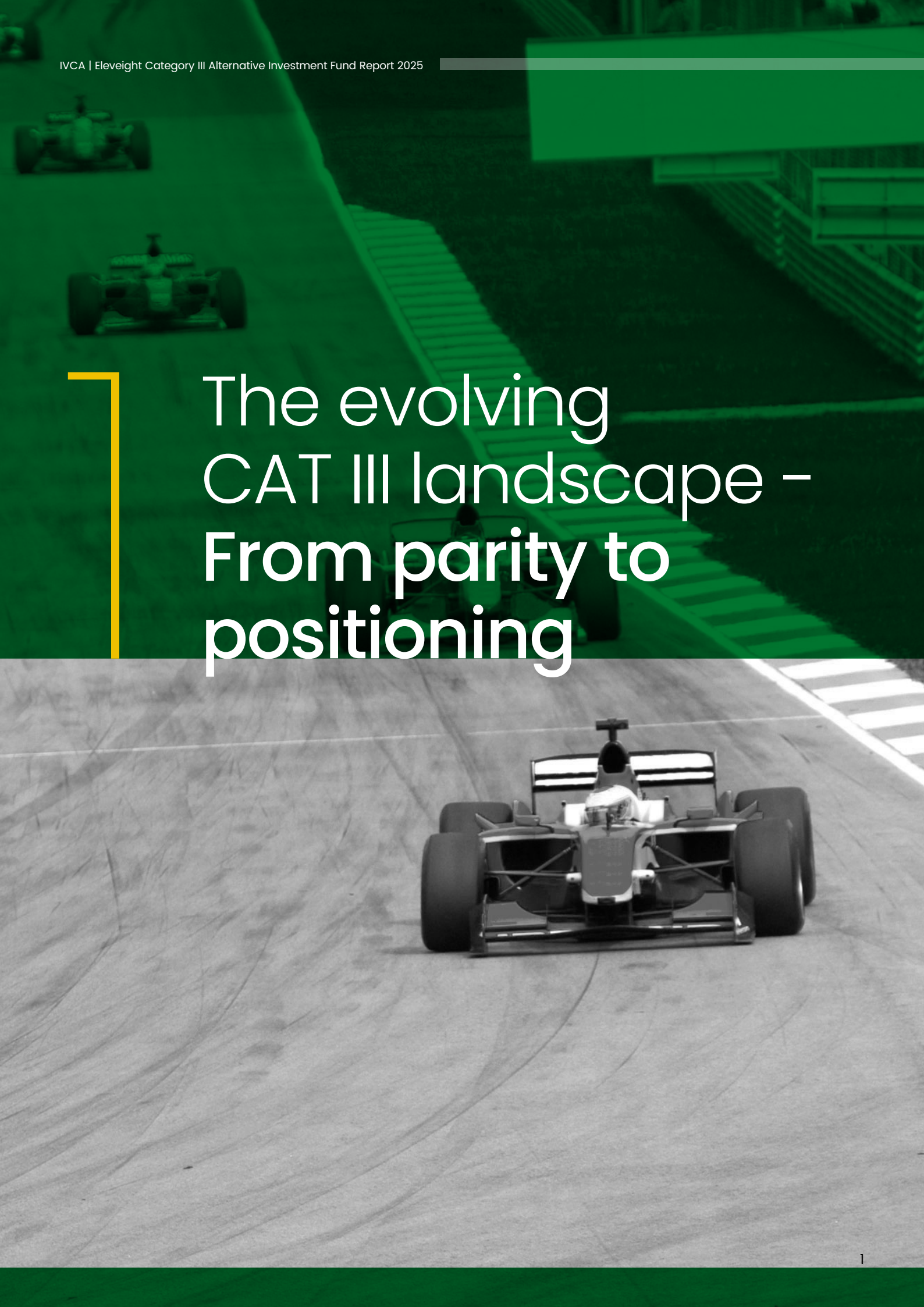
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1 The evolving CAT III landscape - **From parity to positioning**



Over the past decade, Category III Alternative Investment Funds (AIFs) have quietly transformed from being perceived as the "mutual fund equivalent" of the AIF universe to becoming a high-conviction space for differentiated and niche investment strategies. Designed to invest primarily in listed securities with the flexibility to use leverage and sophisticated hedging techniques, CAT III AIFs offer a distinct value proposition in the Indian financial ecosystem — one that combines agility, innovation, and strategy-driven alpha generation.

Once clubbed alongside mutual funds for their equity orientation, CAT III funds are increasingly being recognised for what they truly are: curated, high-engagement vehicles suited to informed investors seeking customisation, portfolio diversification, and tactical exposure. Their ability to house long-short equity, quant models, market-neutral, structured credit, and hybrid strategies sets them apart in both intent and execution.

With rising interest from both domestic and offshore HNIs, family offices, and institutional investors, CAT III is no longer a peripheral option — it is a core consideration in portfolio design for those looking beyond the conventional. This chapter explores the data-driven evolution of this category, highlighting key trends, investor behaviour, and the growing institutional relevance of CAT III AIFs in India.

Let's look at what the **numbers say**.

Exhibit 1: Commitments made by AIFs (INR Cr) as on March 2025

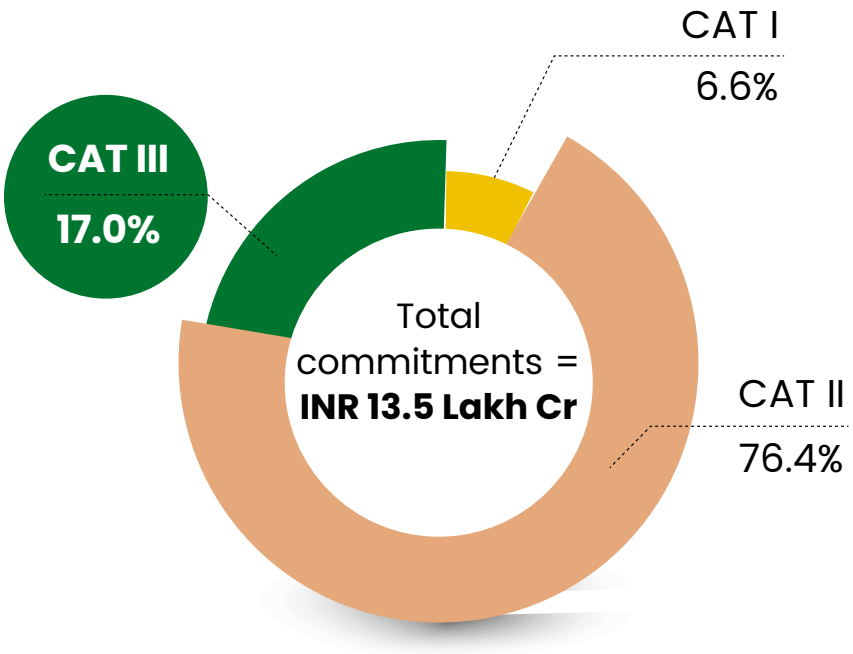
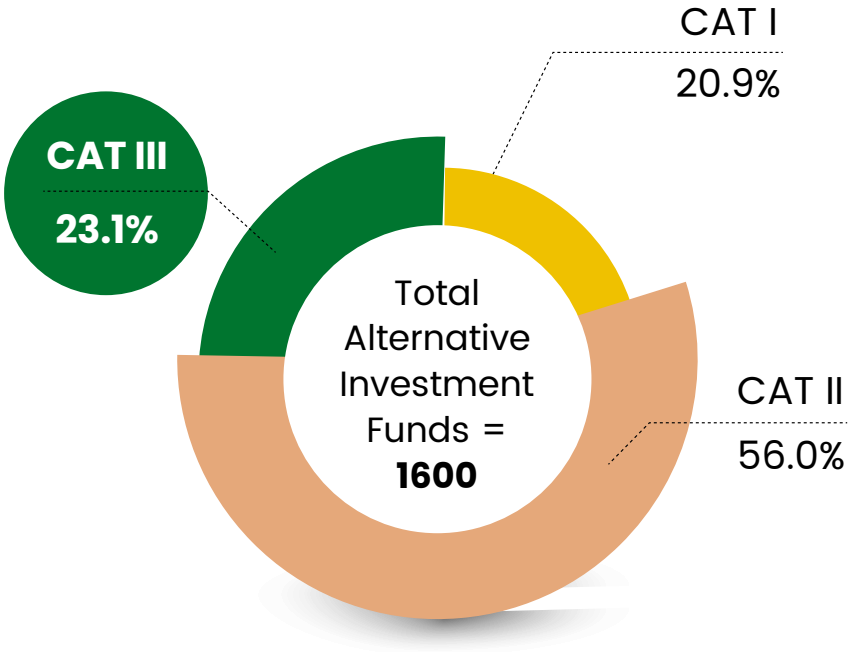


Exhibit 2: Number of AIFs as on June 2025



Strong Momentum in **Fund Raising** & **Launches**

Exhibit 3: % of total Commitments represented by CAT I, II, III AIFs (End of Quarter)

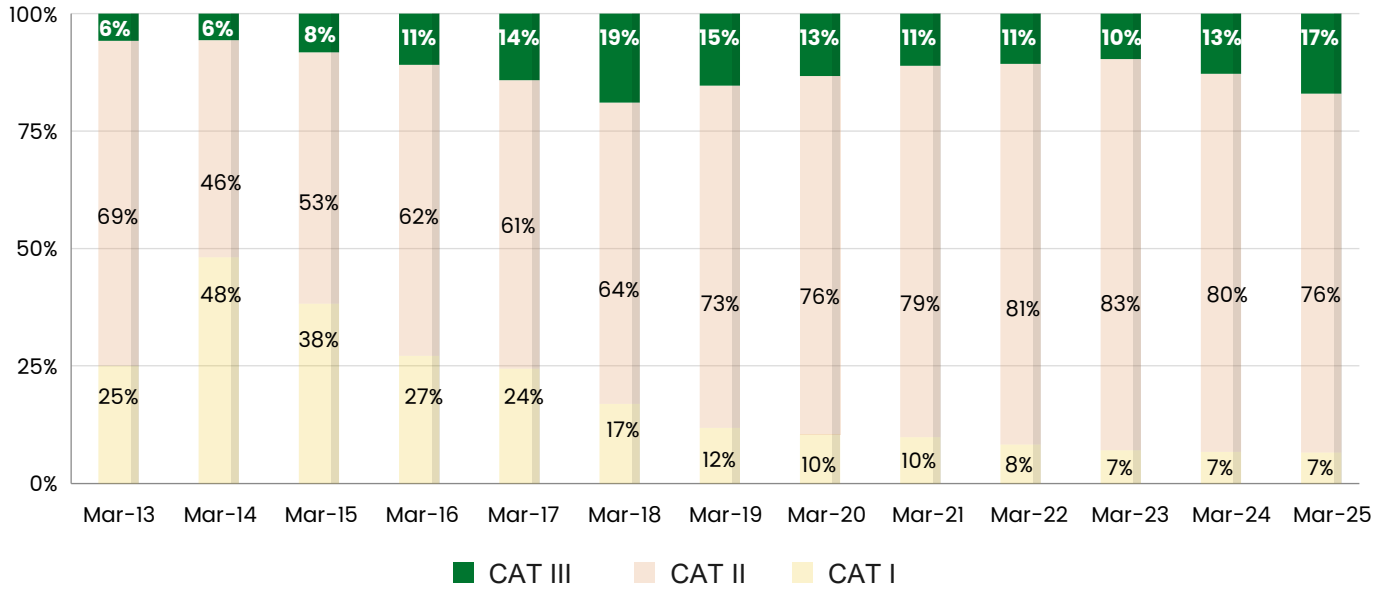
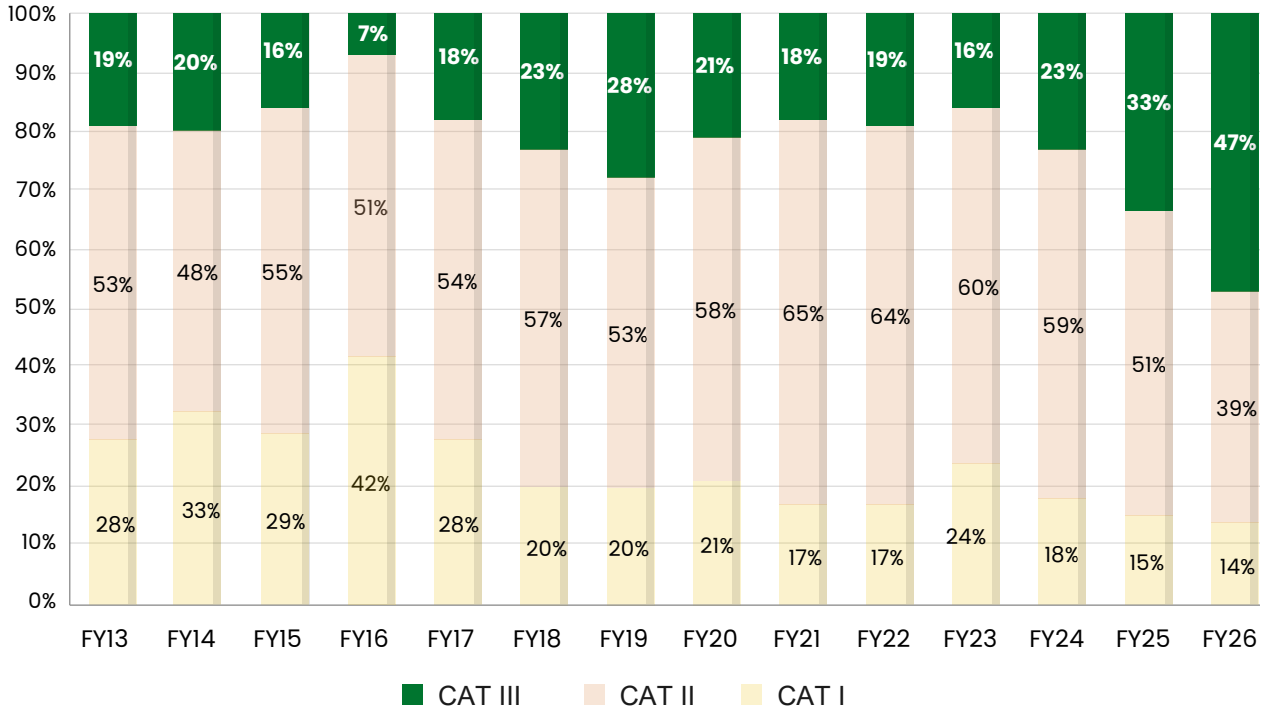


Exhibit 4: % of funds launched across CAT I, II, III AIFs



*FY26 data till 16June2025

CAT III Commands the Flow

Highest Growth in Commitments Across Timeframes

Exhibit 5:
YoY growth in Commitments

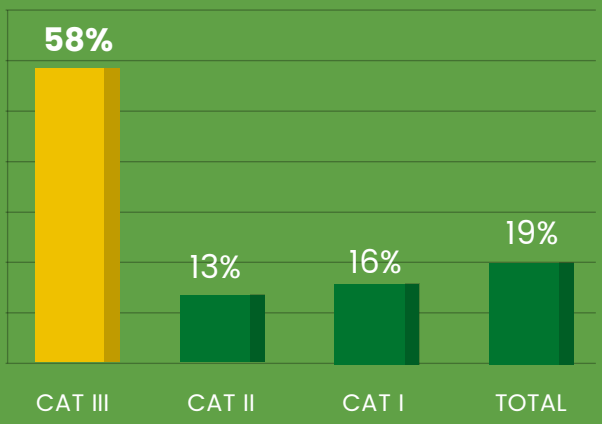


Exhibit 6:
3 Year CAGR in Commitments

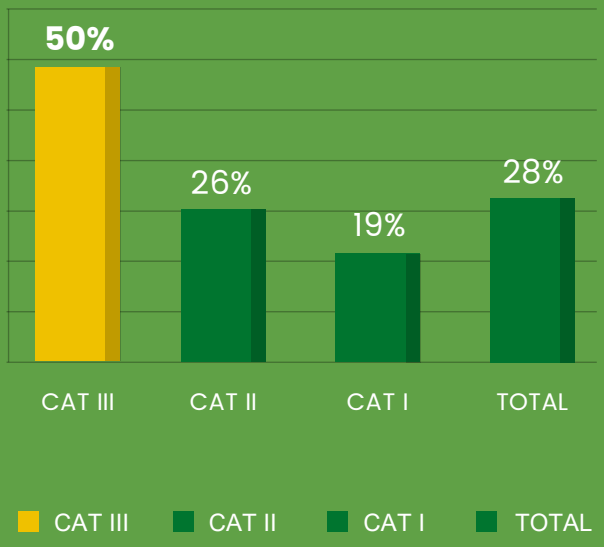
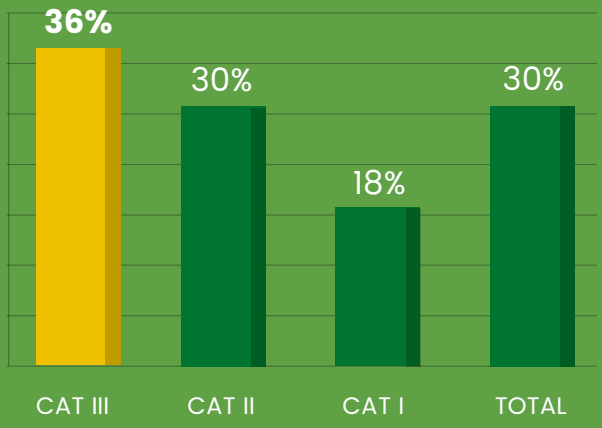


Exhibit 7:
5 Year CAGR in Commitments



CAT III continues to see strong interest from new fund managers and institutional platforms:

- Registrations under CAT III have steadily increased, pointing to sustained pipeline strength.
- The diversity of strategies - long-short, market-neutral, quant, thematic - makes it an attractive launchpad for differentiated products.

CAT III is evolving from a niche product class to a mainstream asset pool, driven by demand for agile, strategy-driven investing.

Surge in Capital Raised: **CAT III Leads the Pack**

Exhibit 8: CAT III AIFs: Commitments, Investments and Funds raised (INR Cr)



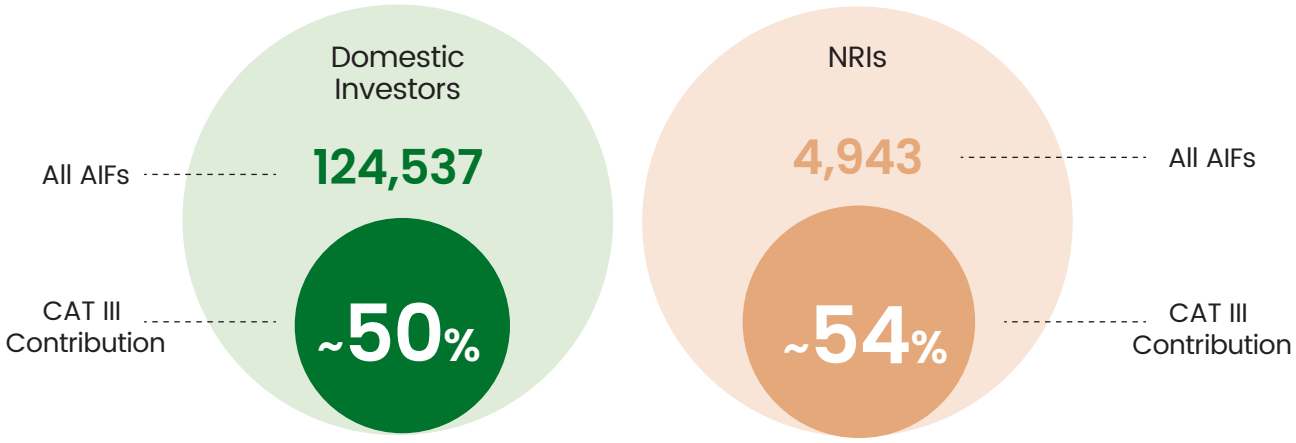
Category III AIFs have emerged as the growth engine of the alternative investment ecosystem in India. Over the past year (Funds Raised March 25 vs March 24), CAT III funds recorded the highest year-on-year increase in funds raised, clearly outpacing CAT I and CAT II counterparts.

₹57,485Cr
raised only for CAT III category

Of the INR 111,462 Cr raised across AIF categories in FY25, CAT III alone accounted for a commanding ₹57,485 Cr - marking it as the single-largest contributor to incremental capital.

Growing Investor Preference– The CAT III Magnet

Exhibit 9: Growth in Funds Raised March 25 vs March 24 (INR Cr)



* The figures are gross funds raised. Funds raised from employees, sponsor, manager and EBTM data not included.

CAT III has become the preferred destination for both **domestic and NRI investors.** The data reveals that:

CAT III attracted the highest share of incremental capital from NRI investors, indicating strong offshore confidence.

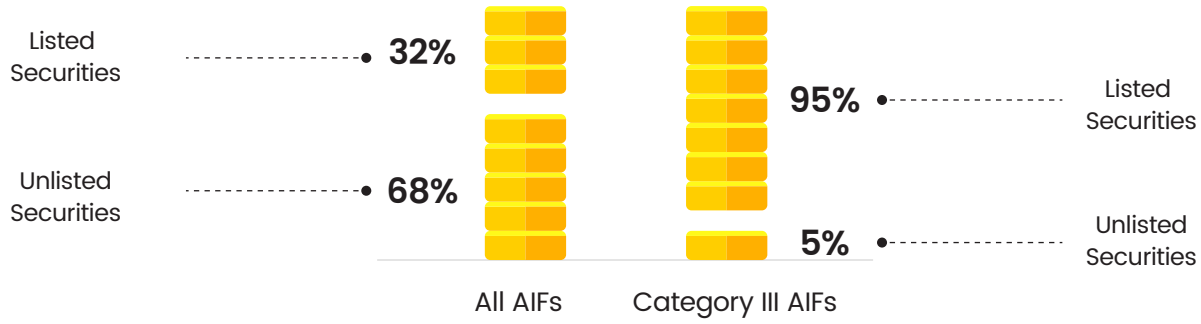
Similarly, **domestic investors have shown a growing tilt towards CAT III strategies,** reflecting a rising appetite for long-short equity and absolute return products.

Growth in funds raised from both domestic and NRI segments was the highest in CAT III — reinforcing its broad-based investor appeal.

Source: SEBI

Unlisted Allocations — Small but Strategic

Exhibit 10: Cumulative net investment made in listed and unlisted securities (% quarter ending March 31, 2025)



Note:

Listed Securities - Listed/Proposed to be listed Debt, Listed/Proposed to be listed Equity, Listed/Proposed to be listed equity on SME exchange, REITs/Invits.

Unlisted Securities - LLP Interest, Others (Unlisted), Securitised Debt, Security Receipts, Units of Mutual Funds, Unlisted Debt, Unlisted Equity/Equity Linked instruments.

Units of Category I AIFs, Category II AIFs and Category III AIFs not included.

While **listed securities** remain the primary investment avenue for CAT III AIFs, a **notable 5% allocation to unlisted securities** has emerged.

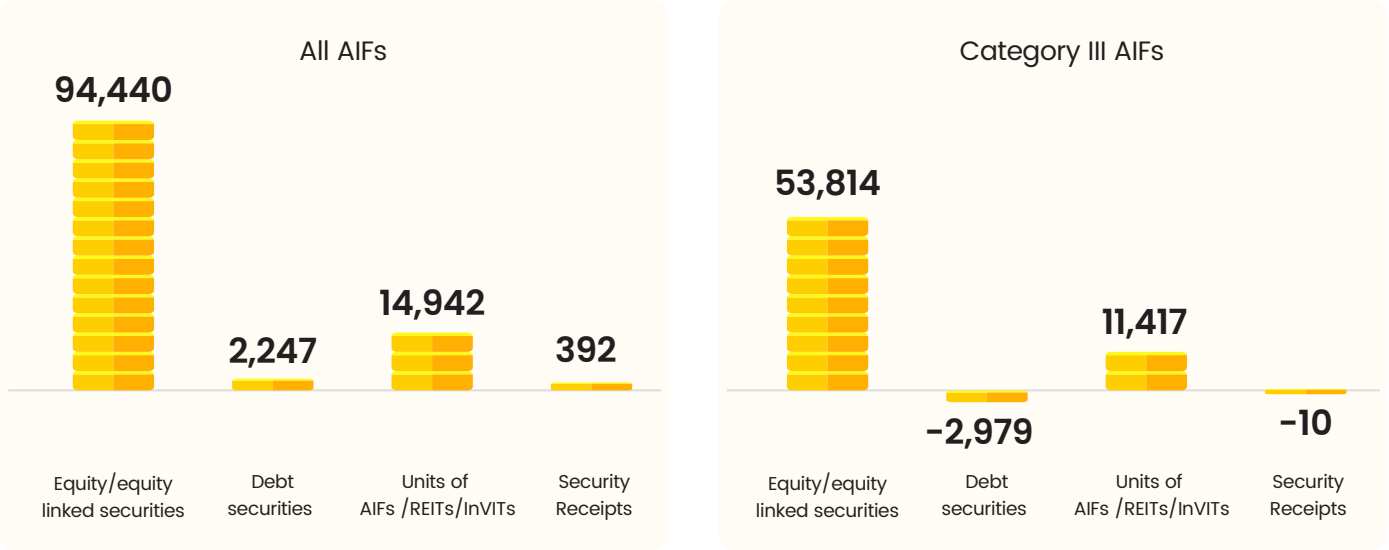


The 5% exposure to unlisted assets reflects a strategic shift - a move towards capturing early-stage alpha even in a largely liquid strategy.

Source: SEBI

Not Just Equity — CAT III's Strategic Bet on Real Assets

Exhibit 11: Growth in net investment made in equity and debt securities March 25 vs March 24 (INR Cr)



* Investments made in equity/equity linked securities = Listed/Proposed to be listed Equity, Listed/Proposed to be listed equity on SME exchange, Unlisted Equity/Equity Linked instruments.

Investment made in debt securities = Securitised Debt, Listed/Proposed to be listed Debt, Unlisted Debt.

Cumulative net investments in **REITs** and **InvITs** show an interesting trend:

Category II and III AIFs show nearly equal cumulative investments in units of AIFs/REITs/InVITs as on end of the quarter March 31, 2025 (CAT II at ₹13,843 crore and CAT III at ₹13,273 crore).

However, **growth over the past year has been led primarily by CAT III AIFs.** (Jump in cumulative investments in units of AIFs/REITs/InVITs from ~1,900Cr to 13,000+Cr YoY)



CAT III funds are not just equity-focused — their exposure to infrastructure and yield assets like REITs and InvITs signals a diversified playbook.

Source: SEBI

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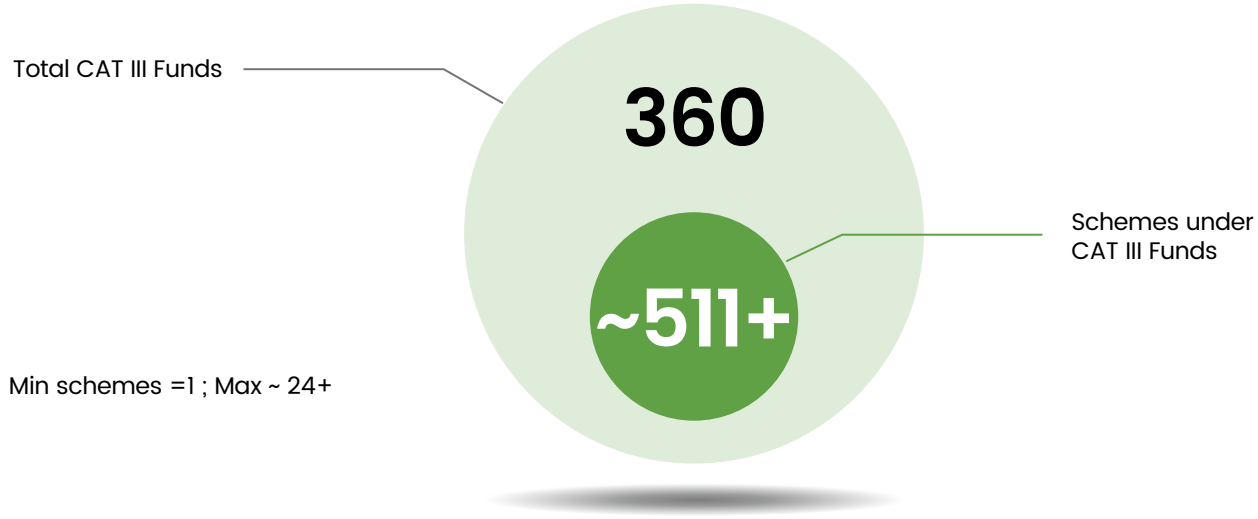
Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

2 Deep Dive into **Category III AIFs**



CAT III Fund Universe – Scale and Spread

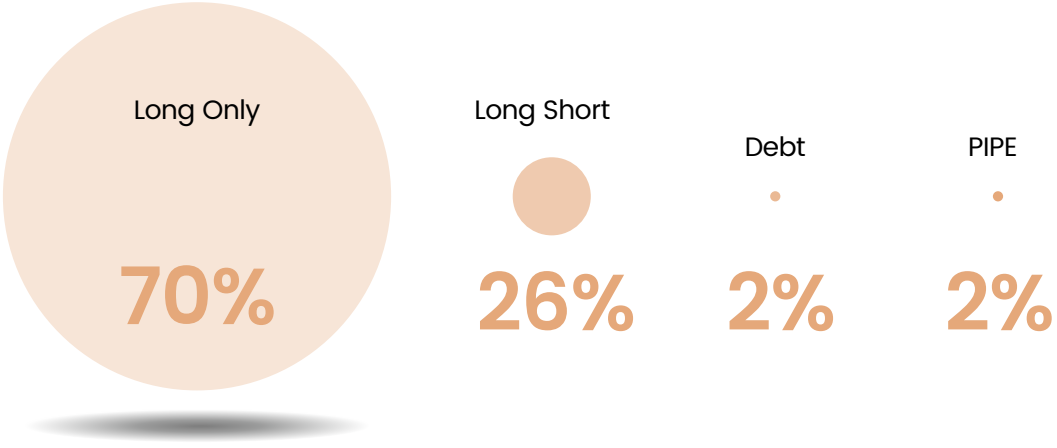
With 360 registered funds and nearly 511+ schemes, the CAT III universe has grown not just in scale but also in strategic diversity. While some funds operate a single scheme, others run up to 24 — a sign of increasing segmentation and specialisation.



Strategy Composition – Dominated by Long-Only, But Long-Short is Rising

While long-only strategies still dominate at 70%, the 26% share of long-short schemes signals a maturing ecosystem that is embracing hedging, absolute return, and market-neutral approaches.

Composition of number of CAT III Schemes:

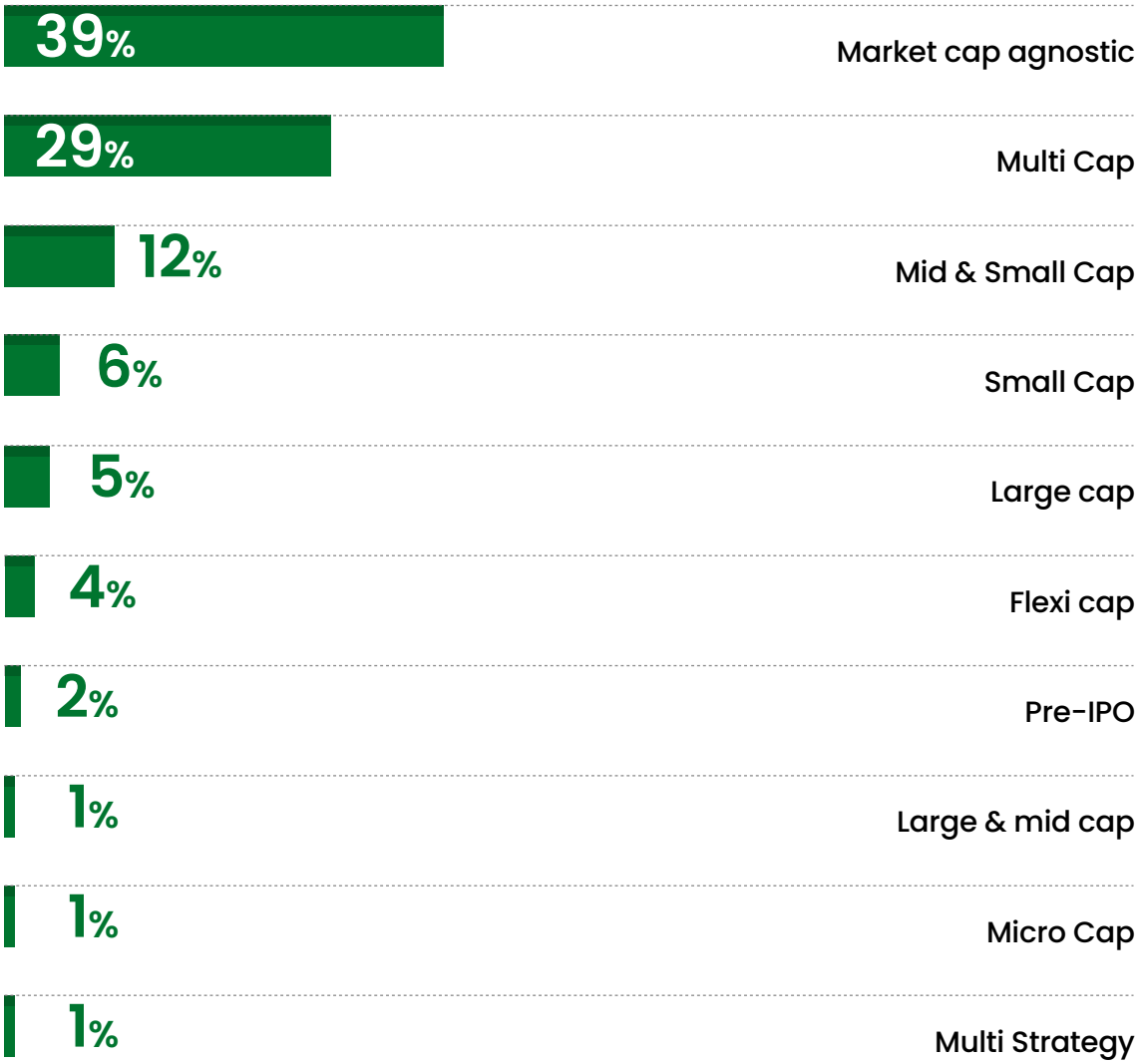


Source: Eleveight Analysis of SEBI data

Inside Long-Only – A Tilt Toward Flexibility and Thematic Bets

Nearly 40% of long-only CAT III schemes are market cap agnostic, while multicap (29%) and mid-small cap (12%) follow closely. The data highlights investor appetite for diversified equity bets, with increasing interest in flexi-cap, pre-IPO, and micro-cap strategies.

Composition of Long Only Schemes

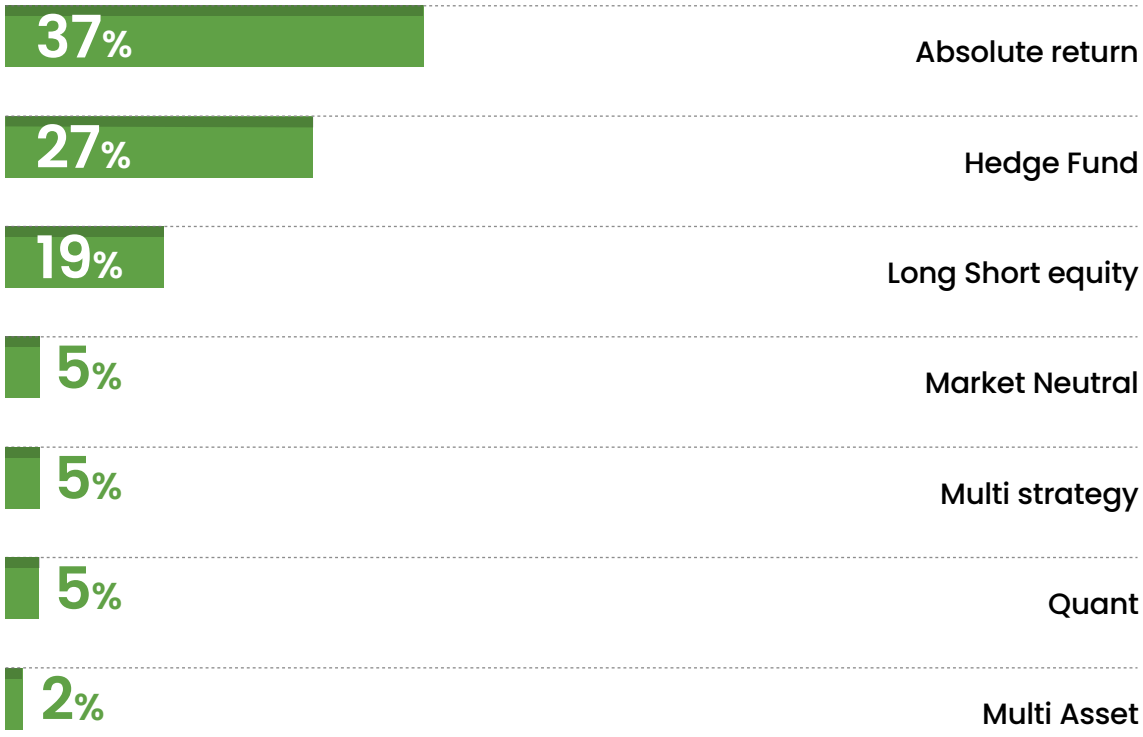


Source: Eleveight Analysis of SEBI data

Inside Long-Short – From Hedge Funds to Quant Models

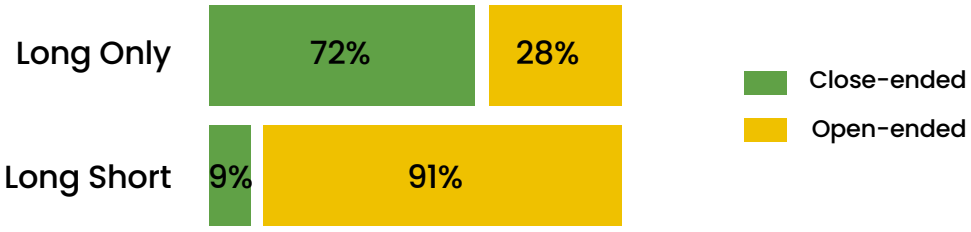
Absolute return (37%) and hedge fund-style strategies (27%) lead the long-short space, followed by long-short equity (19%). Interestingly, quant, multi-asset, and market-neutral strategies are carving a niche — a sign of growing sophistication in portfolio construction.

Composition of Long Short Schemes

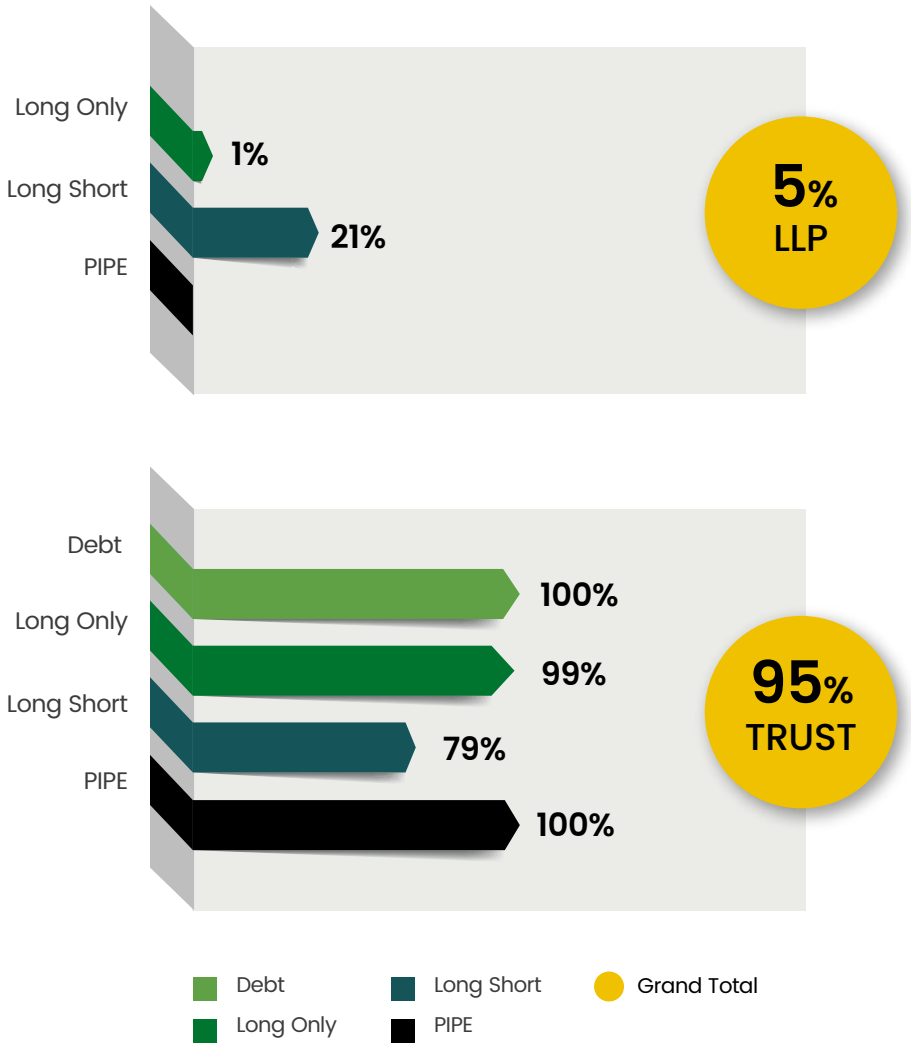


Source: Eleveight Analysis of SEBI data

Open/Close-ended Composition of CAT III Schemes



Structure (Trust/LLP) Composition of CAT III Schemes



*Data as of March 25. For composition of CAT III Schemes, 262 schemes have been analysed

Source: Eleveight Analysis of SEBI data

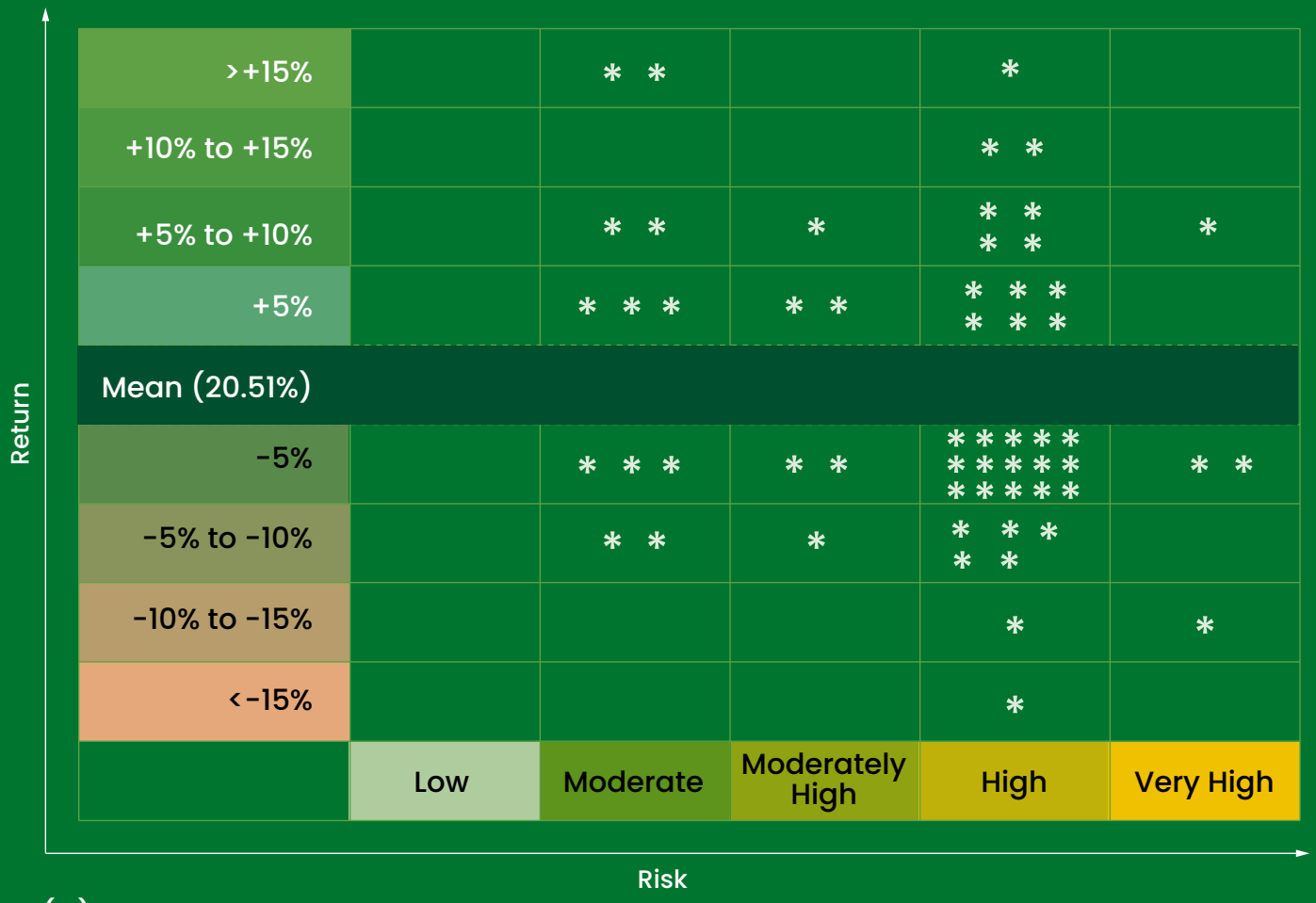
Risk - Return mapping of CAT III Funds

In order to evaluate the performance of Category III AIFs across different strategies, we have created a grid that maps risk (X-axis) against return differentials from the mean (Y-axis) for both Long Only and Long Short funds. The data is based on pre-tax returns of a limited but representative set of schemes. The aim is to visualise how funds cluster across various combinations of risk and return, helping us understand the performance dispersion within each category.

Long Only Funds: Wide spread, with concentration below mean returns

With a mean pre-tax return of 20.51%, the long-only category shows a wide dispersion. While a few funds have managed to deliver exceptionally high returns with moderate risk, the majority are concentrated in the high-risk, sub-mean return quadrant. This suggests that while alpha generation is possible, consistent performance requires superior stock selection and risk management.

Number of funds in each category (Risk vs return)

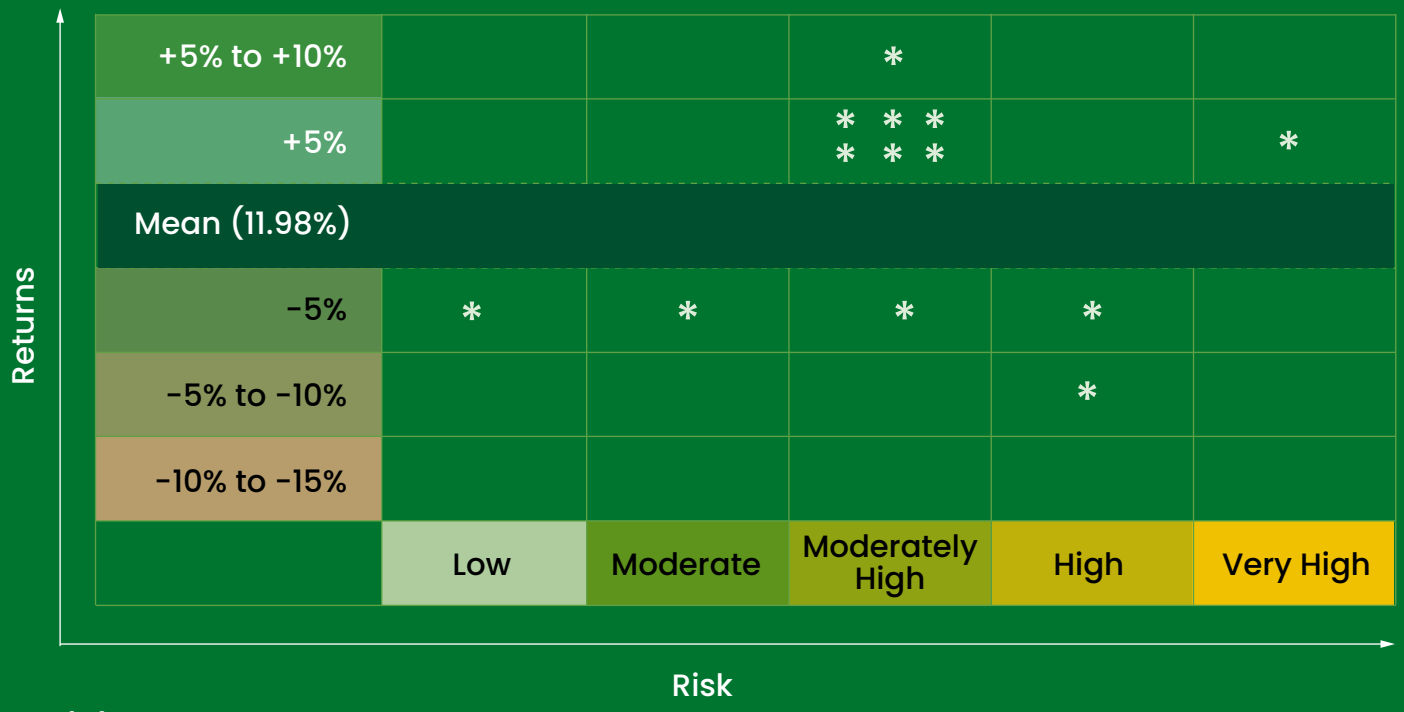


(*) Total Funds = 57

Long Short Funds: Consistent outperformance in moderate-to-high risk bands

Long-short funds, with a mean return of 11.98%, exhibit an encouraging pattern—a significant proportion of funds are able to deliver above-mean returns while maintaining moderate to moderately high risk. A noticeable cluster sits in the +5% or better return range, suggesting that long-short strategies are increasingly proving their effectiveness in managing downside while participating in upside.

Number of funds in each category (Risk vs return)



(*) Total Funds = 13

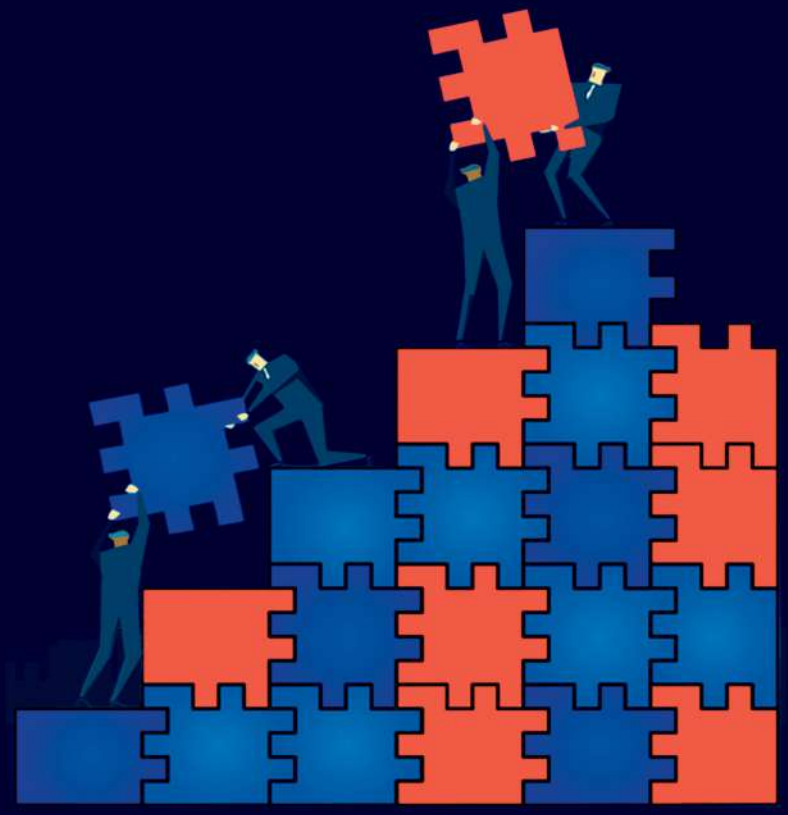
Assumption:
Risk levels have been allocated to each index benchmark based on a combination of historical volatility, and alignment with SEBI's risk-o-meter classification used in mutual fund schemes of similar composition.
Nifty SME Emerge: very high; BSE Small Cap: very high; CNX Small Cap: very high; Nifty Smallcap 250: very high; Nifty Consumption TRI: very high; Nifty Financial Services: very high; BSE MidSmall Cap: high; Nifty MidSmall Cap 400: high; BSE 500: high; Nifty 500: high; BSE 200: high; Nifty 200: high; Nifty; Midcap 100: high; Nifty 50: moderately high; Nifty 50 Hybrid Composite Debt 50:50 Index: moderately high; CRISIL Composite Bond Fund Index: low; CRISIL Liquid Fund Index: low

Source : PMS Bazaar (as on June 30, 2025)

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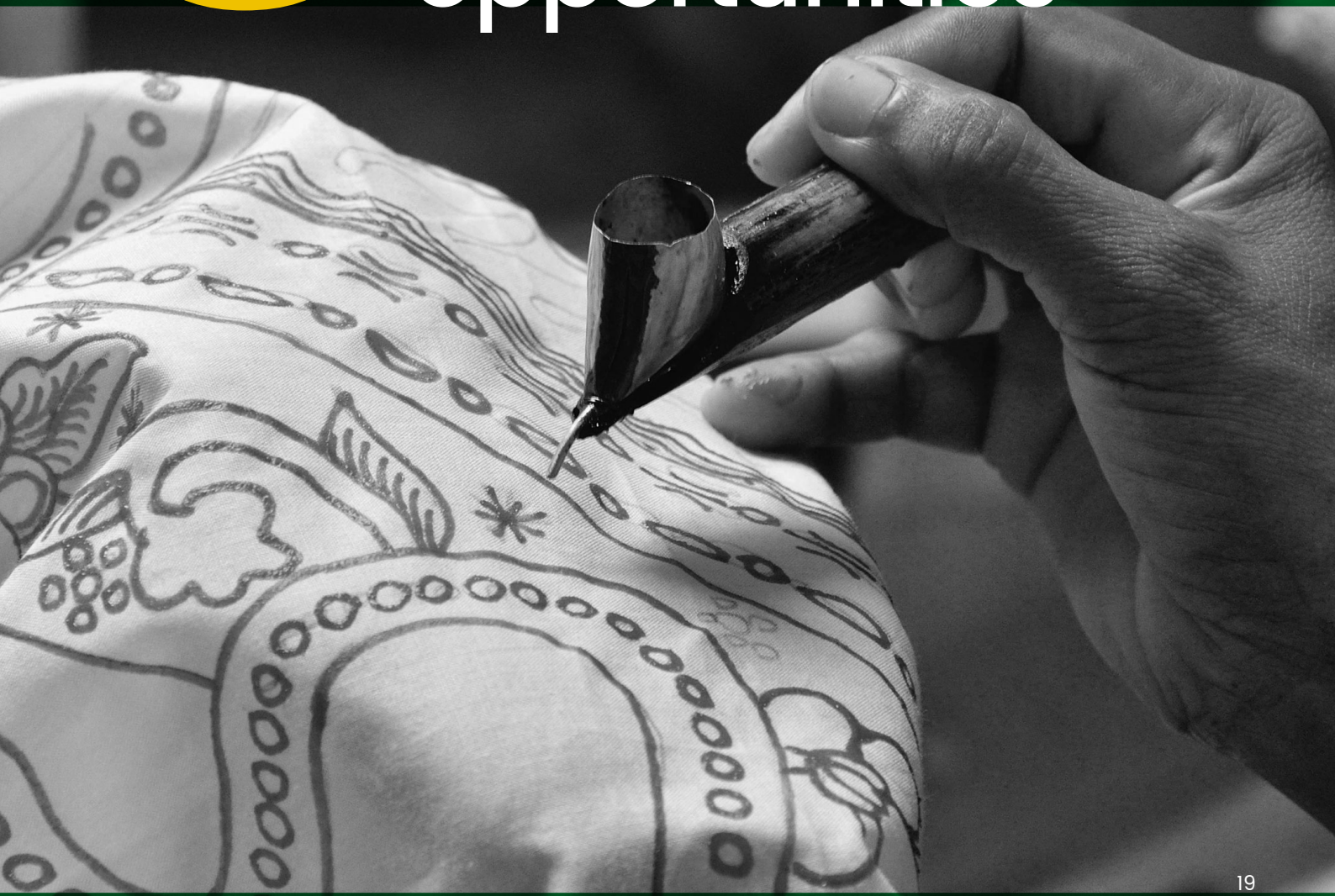
Agent Bank of the Year for Consistent Excellence 2024
By Global Custodian Leaders in Custody Asia Awards

Single - Market Custodian of the Year 2023
By Asset Servicing Times Industry Excellence Awards

Leading India Custodian 2017-2022
By Global Custodian ABEM Survey

Best Hedge Fund Custodian 2022
By Intelligence HFM Asian Service Awards

3 Emerging patterns and **market opportunities**



Evolving investor preferences and **sharper strategy articulation**

India's Category III AIF space is steadily transitioning from a niche vehicle to a dynamic, mainstream option for sophisticated capital. Fuelled by the rise in high-net-worth wealth, regulatory flexibility, and growing appetite for alpha, the segment is now home to a broad spectrum of strategies—from high-conviction long-only bets to dynamic, hedged long-short structures.

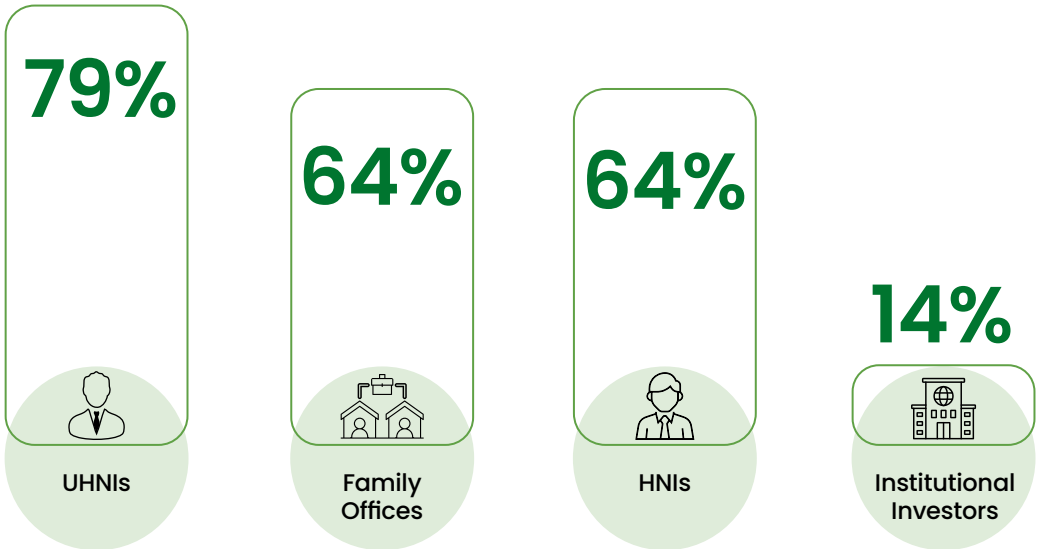
A noticeable trend across industry conversations is the shift from generic multi-cap investing to **more concentrated thematic and tactical sectoral exposures**. Fund managers are moving away from "box-ticking diversification" and leaning into sector rotation, profit cycle identification, and market timing—signals of a market becoming more confident in differentiated alpha generation. In many cases, strategies have become leaner and more focused, built around capturing dislocations rather than riding broad benchmarks.

Alongside this, long-short strategies are increasingly being treated not just as hedging tools but as active return vehicles in themselves. The focus is shifting to risk containment—limiting drawdowns, managing net exposure tightly, and staying agile in response to market sentiment.

What was once a specialised, marginal product is gradually gaining broader appeal among sophisticated investors.

Let's take a look at the insights from our primary interactions with industry participants (Fund Managers and Wealth Managers):

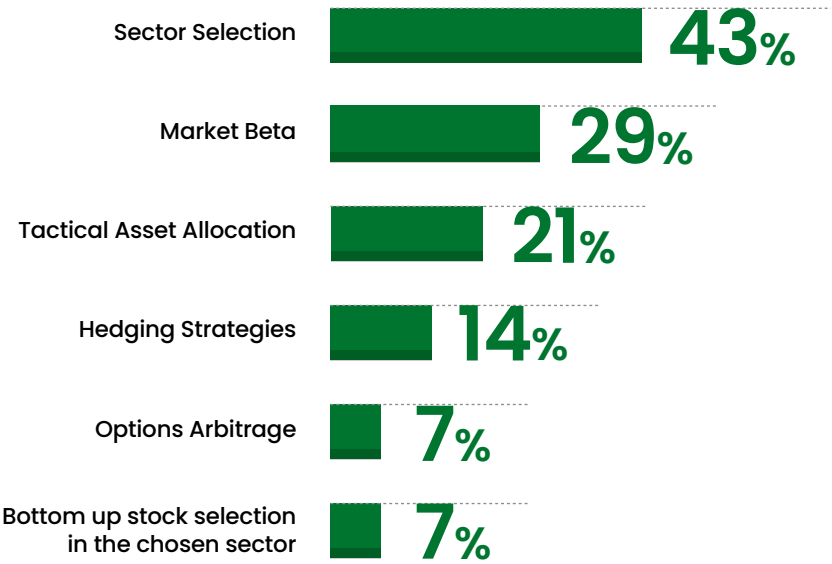
Q: How would you describe your primary investor base?



CAT III AIFs continue to be driven primarily by individual capital—especially UHNIs and family offices. Institutional interest remains marginal, likely due to allocation rigidity and perceived complexity of the product category. Multiple managers emphasised that the current investor base is largely "private wealth-led," with family offices becoming more nuanced in their allocation preferences. Institutions are still cautious and waiting for more track record consistency before committing large capital.

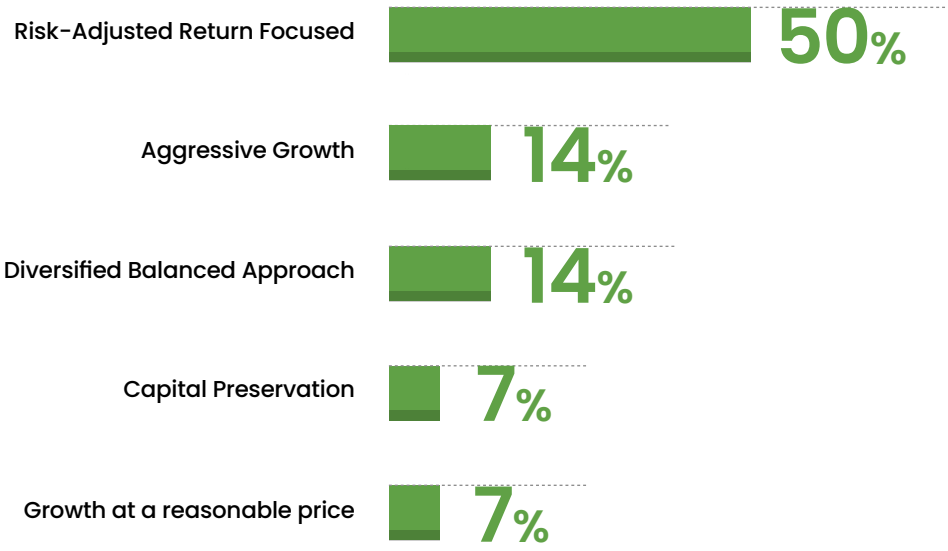
> High-ticket HNI investors are more open to long-short and hybrid models now than they were 2–3 years ago.

Q: Which factors have contributed most to your performance in the past year?



Managers are relying on sector rotation and tactical decisions more than passive exposure to indices. The strategy of fund managers is not to diversify for the sake of it, but to pursue sectors undergoing profit upgrade cycles. The long-short approach has helped managers navigate volatility spikes and preserve capital when markets are corrected. This validates the focus on alpha as not just excess return but also effective risk navigation.

Q: Which of the following best describes your current investment strategy?



Half the managers are focused on delivering risk-adjusted returns rather than simply outperforming benchmarks. This reflects a mature understanding of volatility and the need to contain drawdowns while still generating alpha.

Some quotes from esteemed fund managers:

> We've shifted to strategies that contain downside risk and deliver consistent outcomes over cycles.

> It's no longer about static allocation- you have to stay nimble on gross and net exposure.

> Benchmark - relative investing doesn't justify the fees anymore.

> Clients today are asking for targeted return outcomes, not just Nifty outperformance.

A market where consistency trumps chasing

The first half of 2025 has reaffirmed that volatility is no longer episodic, it is structural. Policy rate shifts in the US and EU, fragile geopolitics across the Middle East and Asia, and erratic liquidity due to central bank recalibration have created an environment of elevated uncertainty.

Despite Indian equities scaling record highs, concerns about valuation froth, geopolitical contagion risks, and global capital flows have prompted a recalibration in investor expectations.

Among HNIs, family offices, and institutional allocators, the narrative has clearly shifted—from chasing benchmark outperformance to pursuing stability and capital preservation.

This is precisely where **absolute return strategies** are gaining traction. These include:

Long/Short Equity Models

Designed to take directional equity exposure while actively hedging against downside.

Market-Neutral Portfolios

That neutralise market beta by offsetting long and short books within the same sector or factor.

Macro Strategies

Which trade across asset classes based on central bank policy, currency shifts, or geopolitical signals.

Globally, hedge funds have long employed these frameworks to deliver uncorrelated, risk-managed outcomes. For Indian CAT III AIFs, this marks a structural opportunity to position themselves as volatility-resilient vehicles.

Q: Who are your key fundraising partners?



Fundraising Channels: What's Working, What's Emerging

Large Wealth Platforms – Still the Powerhouses

- Drive the majority of fundraising scale
- Selective in strategy onboarding
- Highly fee-sensitive

Boutique Wealth Firms – Flexible but Resource-Intensive

- More open to differentiated strategies
- Require extensive education and hand-holding
- Ideal for managers with niche or thematic offerings

Direct Investors – A Rising Force

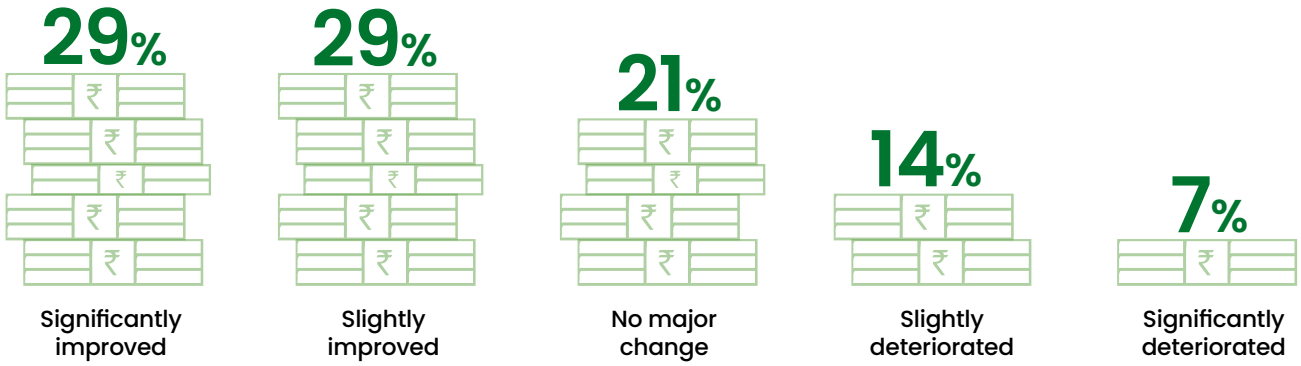
- Composed of informed HNIs and family offices
- Willing to back newer, untested ideas
- Value strategy access and manager quality over branding

RIAs and Independent Distributors – Under-Leveraged Potential

- Low penetration today
- Opportunity for long-term, aligned partnerships
- Limited engagement due to awareness gaps

Fundraising is diversifying beyond the top platforms. But unlocking these channels, especially boutique and direct, demands education, performance proof, and stronger narrative building.

Q: How has your fundraising environment changed in the last 12 months?



Fundraising activity remained broadly stable over the last 12 months, with roughly 60% of fund managers observing either an improvement or no material change. While macro headwinds and regulatory ambiguity tempered overall inflows, digital engagement, differentiated strategies, and strong relative performance supported traction across select funds.

Fundraising Sentiment: Last 12 Months

Improved

- Digital access helped maintain investor dialogue
- Differentiated strategies (long-short, multi-asset) drew new flows
- Strong track records attracted performance-driven capital

Stable

- Managers consolidated schemes to focus on scalable, high-conviction ideas
- Investor engagement remained consistent despite macro noise

Headwinds

- Public market volatility led to caution and cash retention
- Investors have lower tolerance for underperformance or drawdowns - money is moving quickly to the next best performer
- Regulatory friction (equal trail, tax clarity, no upfront fees) dampened distributor enthusiasm

Q: How many new CAT III schemes will be added to your product basket over a period of 1 year?

40% increase

- that's the average jump Fund Managers expect in the number of Category III AIF schemes over the next year.

Q: What Fund Managers Are Planning for FY26?

Multi-Cap Strategies Lead

Top choice for new launches—broad market exposure with flexibility.



Long Short Expansion

Long Bias and Market Neutral strategies gain favour for downside protection.

Multi-Asset Appeal

Diversified approach across equity, debt, and commodities.

Quant on the Rise

Rules-based investing attracting new-age, performance-driven investors.

Credit Gets a Look

Selective interest in structured, high-yield opportunities.

Product innovation rooted in **segmentation**

As the investor base diversifies from traditional UHNIs to newer family offices and boutique institutions, fund managers are increasingly tailoring their offerings. There's a visible trend toward designing category-specific, risk-calibrated strategies: for example, hybrid funds combining equity and debt-like instruments, or tactical asset allocation products that shift dynamically across market phases.

The move toward smaller, sharply defined strategies also reflects a pragmatic response to investor expectations.



Managers are consciously preferring depth over breadth and quality over quantity. This is also a function of capacity constraints and the desire to maintain alpha in concentrated portfolios.

Quantitative strategies: **the next frontier in Category III AIF innovation**

Among the most exciting developments within Category III AIFs is the rise of quantitative (quant) strategies. These funds apply algorithmic models, statistical methods, and machine learning techniques to identify inefficiencies, minimise bias, and generate alpha in a structured, repeatable manner.

Traditionally the domain of global hedge funds, quant strategies are now being actively adopted by Indian fund managers, particularly those looking to create high-conviction, low-correlation return profiles. This evolution is not just a thematic shift, but a structural one—one that positions India's CAT III landscape as a hub for innovation-led investing.

Why are quant-based AIFs gaining traction?

In a world marked by volatility, sentiment-driven swings, and unpredictable macro events, traditional discretionary strategies can be prone to behavioural biases. Quant-based strategies, by contrast, offer a methodical, data-backed approach that is appealing to investors seeking consistency and precision.

Advantage	What it means
Precision	Rigorous, repeatable models ensure investment decisions are driven by data, not emotion.
Objectivity	Human biases are minimised through statistical frameworks, improving consistency of returns.
Scalability	Quant models can process vast datasets, making them suitable for diverse portfolio sizes and market conditions.

Strategies deployed by **quant funds**

Quantitative Category III AIFs use a broad toolkit of strategies, many of which are rooted in academic finance and tested in global markets. Some of the more commonly deployed techniques include:

Strategy	Statistical Arbitrage	Quantitative Equity Market Neutral (QEMN)	CTAs (Commodity Trading Advisors)	Quant Macro/GAA (Global Macro and Asset Allocation)	Alternative Risk Premia
Strategy Definition	Exploits price inefficiencies between securities based on statistical analysis, focusing on short-term opportunities.	Seeks to exploit market inefficiencies in equity markets by maintaining equal long and short positions, neutralising market exposure.	Aims to profit from price movements in futures markets, focusing on long or short positions in equity, fixed income, and commodities.	Focuses on global economic trends and macroeconomic factors, using a range of instruments like bonds, FX, and derivatives.	Diversified exposure to multiple risk-premia factors across asset classes such as equities, bonds, and FX.
Typical Assets Traded	Equities	Equities	Liquid futures – equity, fixed income, commodities.	Similar to CTAs + cash instruments, bonds, FX, ETFs, Derivatives.	Primarily equities, but may also trade some derivatives and instruments similar to quant macro
Typical Market Directionality / Neutrality	Primarily market neutral	Primarily market neutral	Generally directional	Generally relative value. Some have directional positions.	Generally market neutral long-term (some exceptions)
Long/Short Bias	None	None	May be directional but should have no systemic bias to be long or short over the long term.	May be directional but should have no systemic bias to be long or short over the long term.	Typically no bias
Typical Factor Exposure	Tightly hedged to generic factors.	May be hedged to generic factors, but tends to take specific exposure to certain equity risk premia.	Typically highly exposed to momentum.	Varied, may be tightly hedged; could have a momentum or value bias.	High factor exposure by design. Typical ARP fund looks to offer diversified exposure to many risk-premia factors.

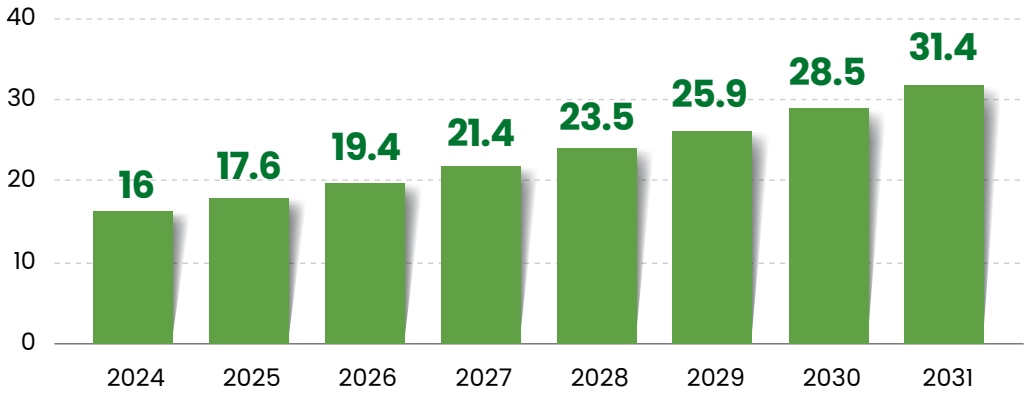
Source: Nuvama AltLens

Global tailwinds accelerating adoption

Globally, quantitative strategies now account for over 20% of all hedge funds. In fact, four of the world's five largest hedge funds today are quant-based. As per 2024 estimates, the global quant fund market is valued at approximately USD 16 trillion, with a projected 7-year CAGR of ~10.1%.

The appeal of quant lies not only in its data-centric approach but also in its ability to deliver outcomes uncorrelated to traditional market beta—something increasingly valued by institutional and HNI investors alike.

Exhibit 12: Global quant funds market



Source: Verified Market Research

In India, ~ 1.5% of assets (MFs, PMS and AIFs) are managed through quant strategies, compared to 35% in the US.[1] In India, the AUM of quant mutual funds has grown by 338 times over the past 10 years, from ~ INR 3 Bn in 2013 to ~ INR 914 Bn in 2024.[2]

The rise of quant-based AIFs in India signifies a paradigm shift towards more disciplined, data-driven investment strategies.

1. https://economictimes.indiatimes.com/aif-pms-conclave-2-0-quant-investing-poised-for-growth-in-indias-golden-decade/articleshow/114548826.cms?from=mdr
2. https://www.dsij.in/dsijarticledetail/quant-and-passive-funds-are-apples-and-oranges-do-not-get-confused-while-comparing-them-id004-42733

Vivriti Asset Management

Red everywhere?

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INR 6,000+ Cr
Commitment Raised

INR 4,000+ Cr
Assests Under Management

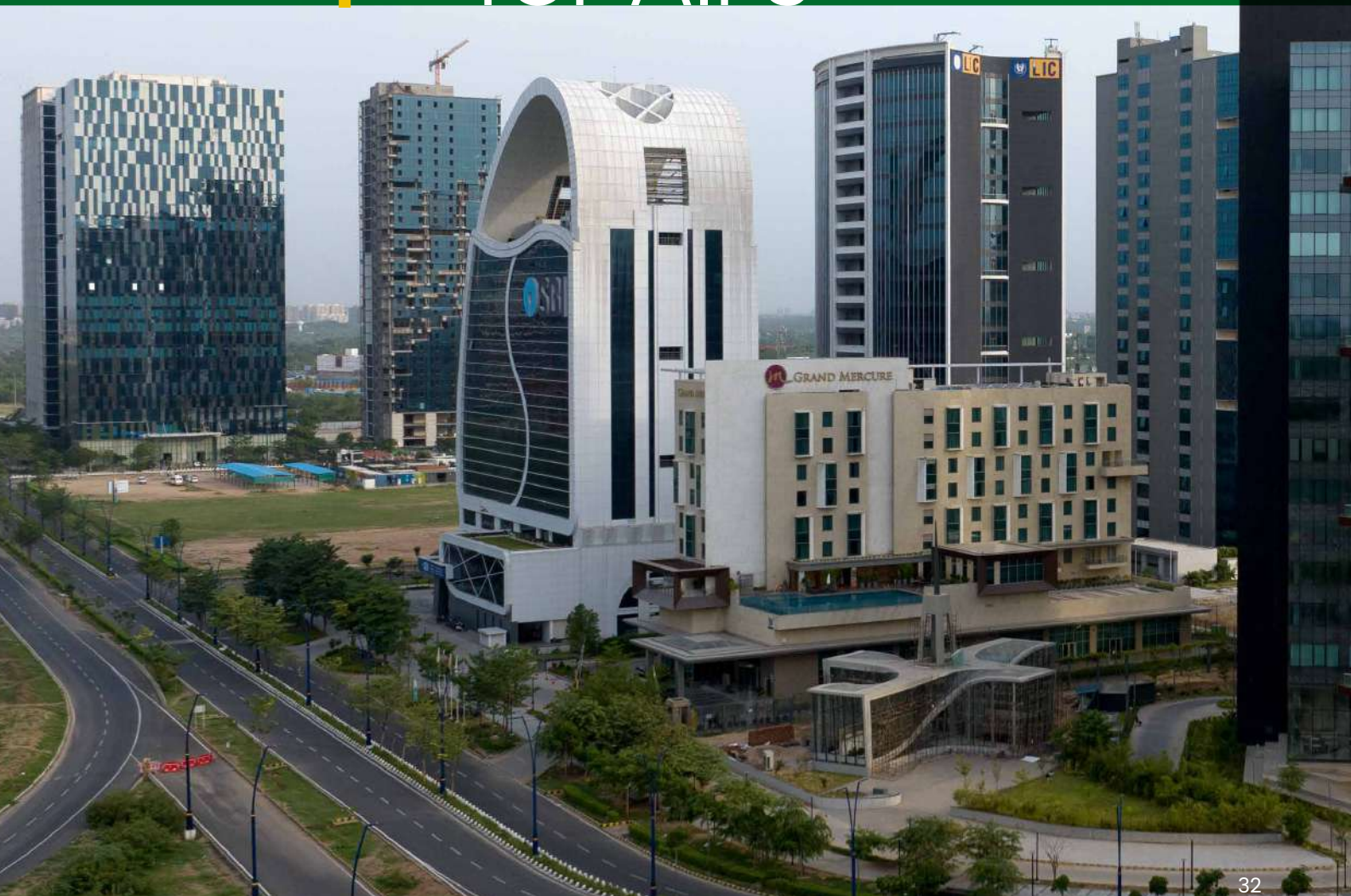
INR 1,500+ Cr
Capital Returned

1,600+
Trusted Investors

To know more, visit **www.vivritiamc.com** or Scan here

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4 GIFT City – The next frontier for AIFs



GIFT City – expanding access and scale

India's GIFT City (Gujarat International Finance Tec-City) is emerging as the preferred jurisdiction for NRIs and foreign nationals seeking seamless exposure to Indian markets. SEBI has made a significant decision to allow FPIs based in the IFSC at GIFT City to accept up to 100% contributions from NRIs[3].

GIFT City offers several investment opportunities for NRIs and OCIs to choose from—offshore banking and deposits, global equities and bonds, AIFs and REITs. In 2024 alone, the fund ecosystem within GIFT City attracted around 5,000 NRIs, with ₹13,071 crore (US$ 1.5 billion) allocated to banking products and ₹60,998 crore (US$ 7 billion) to investment funds[4].

Notably, GIFT-domiciled funds can also invest in Indian mutual fund units with zero tax for non-residents—a benefit not typically available in traditional setups. From a distribution perspective, fund managers and distributors operating from GIFT can rely on reverse solicitation when onboarding NRIs physically present in India, reducing the need for international registration.

According to the Knight Frank Wealth Report 2024, over 65% of NRIs surveyed indicated India would be a priority market for wealth allocation over the next decade.

This marks a structural shift from remittance-led flows to capital that is programmatic, performance-driven, and compliant. With the right mix of platform, policy, and product design, global Indian wealth can be managed into a dependable and scalable capital base.



3. https://www.adi.international/sebi-approves-100-nri-oci-participation-in-fpis-in-ifsc-gift-city/

4.https://www.angelone.in/news/nris-and-pios-invest-rs-60998-crore-in-gift-city-funds

An impressive array of businesses and institutions highlights GIFT IFSC's position as a thriving financial center, attracting both domestic and international players.



120+

Capital Markets Intermediaries



31

Banks



02

International Stock Exchanges



60

Fintech Entities



39

Insurance & Reinsurance firms



200+

Alternative Investment Funds



02

Foreign Universities



30+

Aircraft Leasing Firms

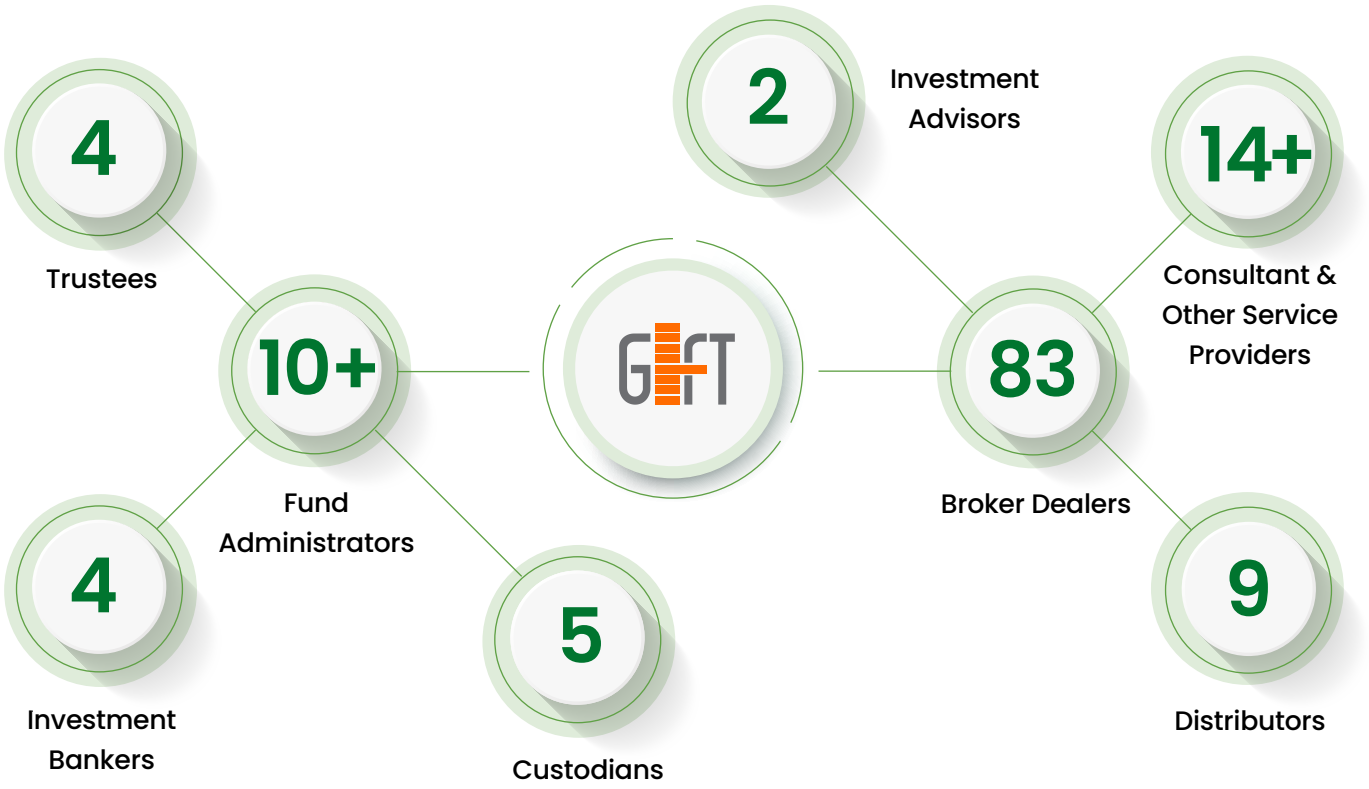


15

Ship Leasing Firms

As on Mar'25

GIFT City's **Fund Management Ecosystem**



Business Highlights

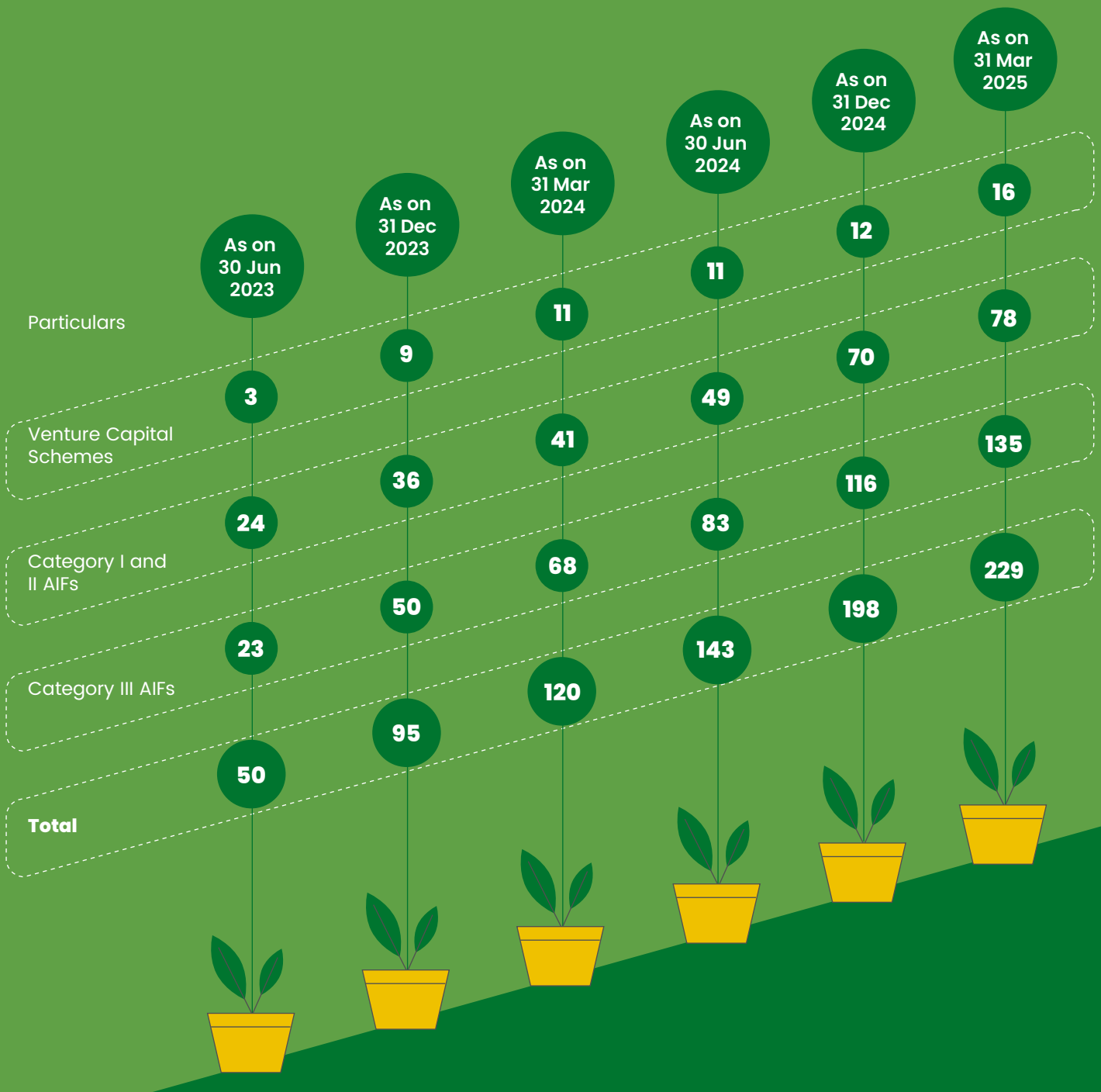
15+
Billion dollars of Total committed raised

162
Total Fund Management Entities

229
Total Funds

* Source: IFSCA BULLETIN | JAN-MAR 2025 upto March 2025

Growth of Funds in GIFT City





Category III AIFs have emerged as the largest and fastest-growing segment within GIFT City's fund landscape. As of March 2025, there are **135 active CAT III schemes**, up from just 23 in June 2023—representing nearly **60% of all new fund registrations** in the IFSC over this period.

Importantly, CAT III funds are driving activity across both **inbound** structures, targeting NRIs and global investors allocating to Indian markets and **outbound** strategies where funds domiciled in GIFT are investing globally through long-short, quant, and multi-asset formats.

This trend underscores GIFT City's rising appeal as a full-stack alternatives hub, offering tax efficiency, regulatory flexibility, and global investor access; all of which are particularly relevant to the differentiated mandates that CAT III funds typically operate under.

For fund managers, **a gateway to global Indian wealth**

India's growth story is no longer confined within its borders, it now extends across continents. The global Indian diaspora is estimated at 35 million, including around 16 million non-resident Indians (NRIs) and 20 million people of Indian origin (PIOs)[5]. As wealth creation accelerates globally, NRIs—driven by both emotional connection and economic conviction, are actively exploring structured, growth-aligned ways to participate in India's investment journey. This marks a shift from legacy patterns of remittances and real estate buys to programmatic, compliant, and performance-led capital allocation.

For Category III fund managers, GIFT City opens up a direct channel to tap into this expanding pool of global Indian wealth. India remains the world's largest recipient of remittances, with inflows touching $129 billion in FY24—equivalent to 3.4% of GDP[6]. While traditionally remittances served household needs, a rising portion is now being redirected into financial assets and investment vehicles. According to the RBI's June 2025 bulletin, remittances are projected to reach $160 billion by 2029, underscoring the scale of opportunity for fund managers willing to build globally relevant, NRI-accessible strategies.

In terms of the geographical mix, volume leadership remains with traditional Gulf countries, whereas value is increasingly led by Western economies.

Exhibit 13: % contribution to number of global Indians and their remittances[7].

Top 10 countries: NRI/PIO population

Rank	Country	% Overseas Indians (NRI+PIO)
1	USA	15%
2	UAE	10%
3	Malaysia	8%
4	Canada	8%
5	Saudi Arabia	7%
6	Myanmar	6%
7	UK	5%
8	South Africa	5%
9	Sri Lanka	5%
10	Kuwait	3%

Top 10 countries: Foreign Inward remittances

Rank	Country	% Share in India's Inward Remittances (Banks)
1	United States	28%
2	United Arab Emirates	19%
3	United Kingdom	11%
4	Saudi Arabia	7%
5	Singapore	7%
6	Kuwait	4%
7	Qatar	4%
8	Canada	4%
9	Oman	3%
10	Australia	2%

5. https://www.mea.gov.in/population-of-overseas-indians.htm
6. https://www.data.gov.in/keywords/remittance
7. https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=23260#C1; https://www.mea.gov.in/population-of-overseas-indians.htm

Incentivisation and **structural clarity**

The International Financial Services Centre (IFSC), GIFT City, has opened investment opportunities for NRIs. These include global equities and bonds, banking accounts and deposits, and alternative investment funds. At least five mutual fund houses—including Mirae Asset Investment Managers and Tata Asset Management—plan to launch retail schemes in GIFT City, widening investment options for NRIs.

NRIs investing in the Indian securities market have often faced operational and regulatory challenges. Many of these concerns have now been addressed via the GIFT City route. For instance, the taxation structure is simpler than domestic investments. Funds in GIFT City allow investments and repatriation in foreign currency, removing exposure to rupee depreciation—a long-standing concern.

A major regulatory shift came when SEBI allowed foreign portfolio investors set up in GIFT City to accept up to 100% contributions from NRIs, OCIs, and resident Indian individuals, compared to the 50% limit for FPIs elsewhere. SEBI also provided alternate KYC and disclosure mechanisms for such investors.

Additionally, funds regulated by IFSCA in GIFT City are exempt from several look-through disclosures, provided they meet pooling, diversification, and pari passu requirements.

These structural changes have made GIFT City a viable and attractive option for NRIs, transforming it from a policy idea into a practical investment gateway.

Case study
DSP global equity fund – India's first retail offshore fund from GIFT City

A recent regulatory milestone in GIFT City has enabled mutual fund houses to launch retail offshore schemes for Indian residents under the Liberalised Remittance Scheme (LRS). This development follows IFSCA's framework allowing schemes from IFSC-registered fund managers to accept investments from resident individuals, paving the way for retail participation in global markets via India's international financial centre.

In June 2025, DSP mutual fund launched the **DSP global equity fund**, the **first retail-focused offshore mutual fund established from GIFT City**. This marks a regulatory breakthrough, allowing Indian residents to invest directly in global equities via India's international financial hub, bypassing domestic SEBI limits while benefiting from simplified tax and operational structures.

Feature	Detail
Launch date	June 2, 2025
Minimum investment	$5,000 (approximately ₹4.2 lakh)
Allowed investors	Indian residents under the liberalised remittance scheme (LRS)
Investment universe	30–50 global companies across the US, Europe, and Asia
Expense ratio	~1–1.25% (direct), ~1.75–2% (regular)
Tax treatment	Capital gains taxed at the fund level, not at the investor level

Why it matters

Bypasses SEBI's

$7 billion

overseas cap, enabling continuous fund inflows under the LRS.

Offers **currency-hedged global exposure,** with simplified repatriation and lower tax friction.

Pricing is aligned with IFSCA guidelines to ensure retail-friendly access and compliance.

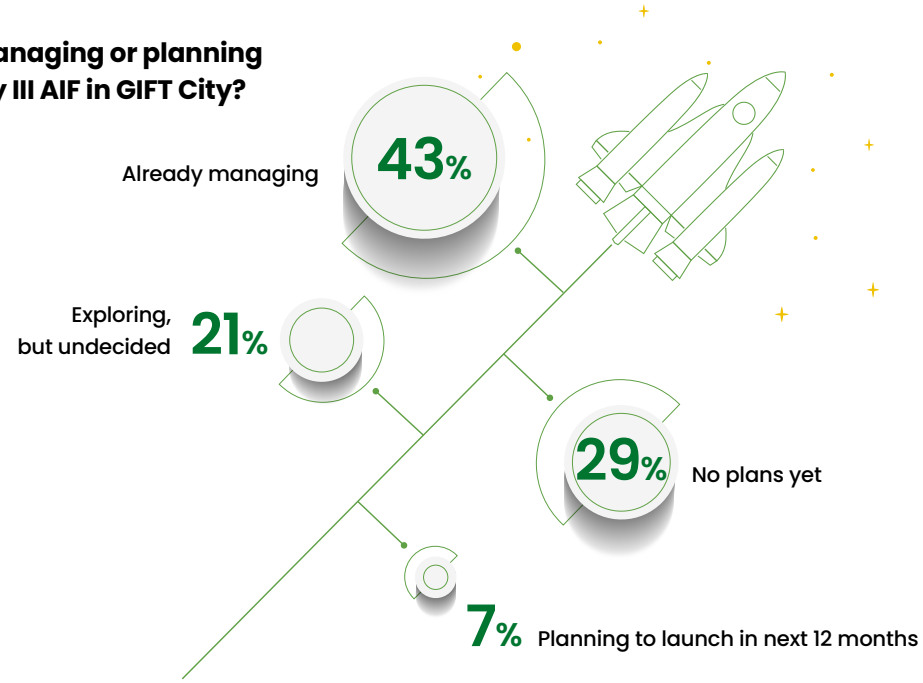
Gift city: growing interest, but structural challenges remain

Our primary research echoes the broader market narrative—fund managers are increasingly viewing GIFT City as a strategic hub for expansion.

While 43% of respondents are already managing a Category III AIF from GIFT City, another 28% are either actively exploring or planning to launch within the next 12 months.

This demonstrates strong intent, even as some remain in the evaluation phase to identify optimal structures and timelines.

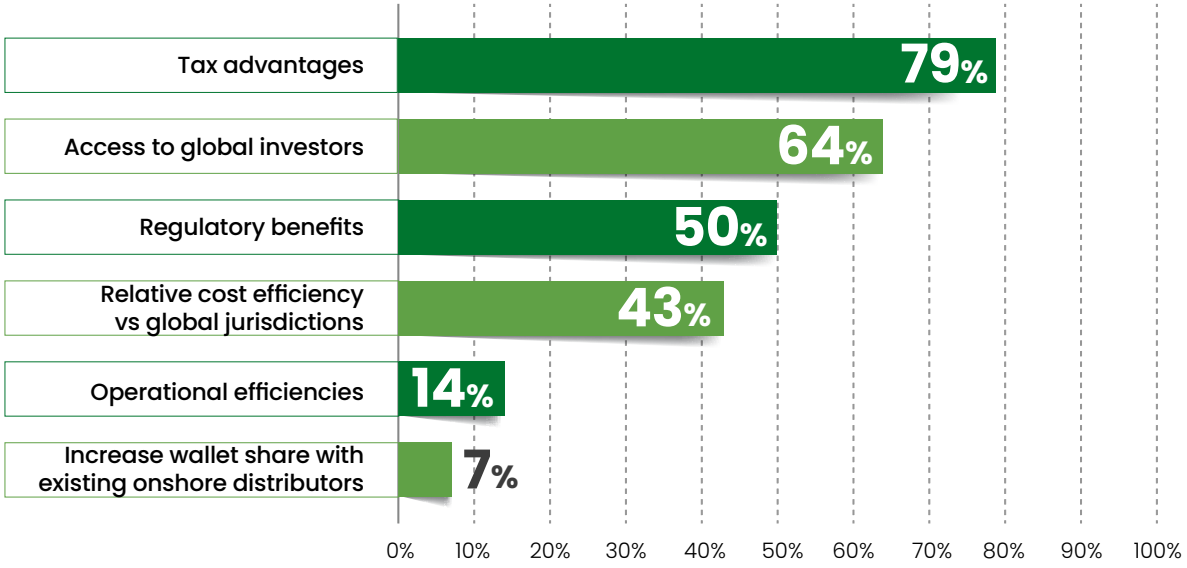
Q: Are you currently managing or planning to launch a Category III AIF in GIFT City?



What's driving this **momentum**?

Fund managers cited **tax advantages** (79%) and access to **global investors** (64%) as top motivations. **Regulatory clarity** (50%) and **relative cost efficiencies versus global alternatives** (43%) were also highlighted as key factors influencing their decision to consider a presence in GIFT.

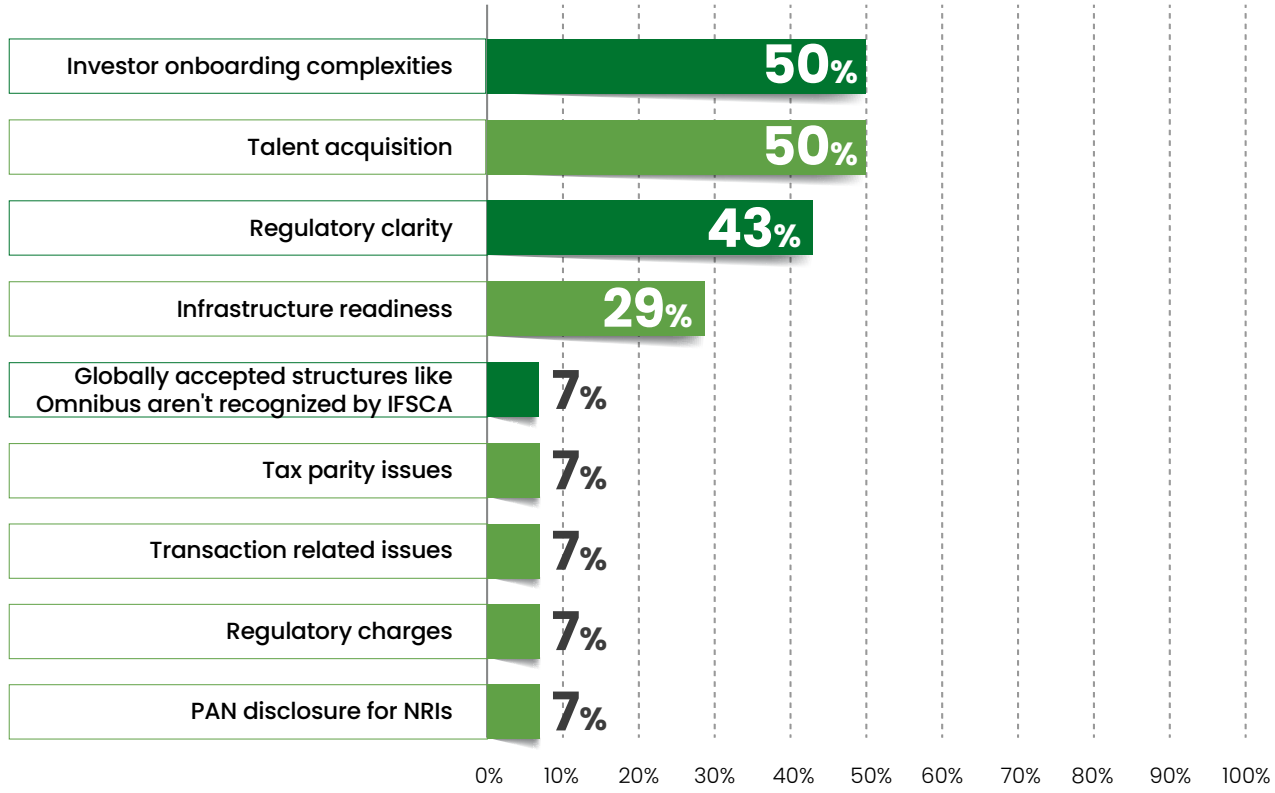
Q: What motivates you to consider GIFT City?



That said, **several practical hurdles persist.**

Investor onboarding complexities and **talent acquisition** were the top two operational challenges (both at 50%). Fund managers also pointed to **regulatory ambiguity** (43%) and **infrastructure readiness** (29%) as areas that need further strengthening.

Q: What are the biggest challenges you foresee in operating from GIFT City?



A few participants flagged more nuanced concerns—such as **lack of omnibus account recognition, tax parity issues, transaction-related friction,** and **mandatory PAN disclosures for NRIs**—all of which reflect the growing pains of a relatively young international jurisdiction.

While optimism around GIFT remains strong, the ecosystem needs to evolve further to match global operating norms and institutional comfort.

Global best practices in fund administration: enabling institutional-grade operations for Category III AIFs

Raising the Bar:
Technology-Driven Fund Administration for Category III AIFs in GIFT City



Khushboo Chopra
Head of Business Development
Email: khushboo.chopra@iqeq.com
www.iqeq.com

Technology architecture takes the center stage in administrating a Category III Alternative Investment Funds. A tech driven solution that provides support to investment managers or to limited partners or managing the operation or reporting can only succeed given that the Fund managers use complex strategies and expectations from the investors are next level. The Category III Alternative Investment Funds, to be successful, must align with global best practices to ensure independence, transparency, and scalability. The following outlines why integrated technology platforms and robust processes help in delivering operational excellence and remarkable experience to everyone associated with such funds. It also highlights how GIFT City jurisdiction is rapidly catching up to the global standards and bringing the best practices to territorial India.

Institutional operation demands centralized platforms for onboarding, fund reporting, documentation, and governance. Leading global fund administrators adopt varied systems to unify investor communications, automate compliance tracking, and maintain audit-ready records effortlessly.

Further, system driven fund accounting is indispensable to support daily net asset value (NAV) calculations, accurate accruals, and fee computations across strategies and jurisdictions. By utilizing modern middleware and cloud-based engines, administrators minimize manual error and reduce latency.

Sophisticated tools match trades, cash and positions systematically with custodians or prime brokers. Transaction-level reconciliation on a T+0 is the key to identifying exceptions early, avoiding hidden risk in settlement cycles, and maintaining timely and accurate reporting to the Fund managers, distributors, and investors.

State of the art technology also extends into regulatory compliances. Reporting to the Regulators without manual intervention as per their defined templates; triggering of alerts for thresholds such as price breach, leverage, concentration sector or redemption limits are key inputs expected for ensuring seamless conduct of open-ended funds. This ensures funds remain within stipulated prudential guardrails and are audit-ready at all times.

Workflow engines orchestrate tasks such as onboarding Limited Partners, approving side-letters, completing NAV sign-off, issuing drawdowns, meeting redemptions or tracking distributors' fees. Each step is governed via digital approval chains, escalations and role-based controls that ensure integrity, transparency and quick turnaround.

Best-in-class operations rely on well laid down processes and robust controls across funds. Document libraries are centralized, version-controlled and made accessible via an integrated interface. Data extraction tools feed dashboards that track fund metrics, exposures and cashflows, transactions etc. in real time.

The GIFT City advantage: Technology adoption trends

GIFT City, operating under IFSCA's unified regulatory framework, has rapidly assembled an ecosystem of custodians, fund administrators, accounting firms, trustees and legal service providers capable of supporting institutional-grade standards and services. As of the end of 2024, GIFT IFSC had licensed over 200 AIFs and attracted global providers into its ecosystem. The calibrated alignment of global norms with Category III Alternative Investment Funds and presence of institutional administrators which provides tech based solutions and digital platforms has created a strong foundation for scalability and unique experience.

Alternative Funds domiciled in GIFT City are permitted to transact in multiple currencies, invest overseas and report in USD, EUR, or other currencies.

A system capable of handling FX, multi-ledgers and cross-border cash movements are central to service such complexities.

A tech based architecture appeals to offshore investors and institutions and it eases the due diligence that such investors would generally perform for investing their capital for a longer duration.

The institutional limited partners expect real-time access via secure portals, with dashboards offering performance attribution, risk analytics, visibility of capital call or distribution transactions, and system generated statements. General partners benefit from workflow visibility, compliance dashboards and investor capital management tools significantly reducing operational friction.

Future-ready for managing all asset classes

Category III AIFs often straddle with equities, derivatives, structured products, hard assets and private investments.

A future-proof administration platform should be asset-class agnostic, supporting real-time mark-to-market, complex fee waterfalls and hybrid strategies.

As AI-enabled platforms gain footholds, funds that do not embed these technologies could run a risk of falling behind.

In conclusion, institutional-grade fund administration for Category III AIFs rests on the confluence of technology, automation and sophisticated workflow design. GIFT City, underpinned by IFSCA's global regulatory alignment and a burgeoning ecosystem of high-caliber service providers, is positioning itself as a robust hub for such funds. Fund managers operating from this jurisdiction can therefore deploy world-class operational infrastructure, multi-currency processing, reconciled tracking, audit-ready compliance, investor experience and hybrid asset coverage; delivering superior outcomes for both LPs and GPs.

5 SIFs: Regulatory change impacting CAT III AIFs



The emergence of Specialised Investment Funds (SIFs): **bridging the gap or challenging CAT III?**

India's economic ascent is percolating down to the household level, as expanding opportunities for wealth creation enable larger swathes of the population to join the ranks of the wealthy. With this rise in investable wealth, there is an increasing demand for nuanced investment products that can optimally cater to the evolving financial needs of Indian investors. The introduction of specialised investment funds (SIFs) by the Securities and Exchange Board of India (SEBI) is not only a step in that direction but also a significant stride towards the democratisation of wealth and wealth management. Beyond addressing investor preferences, the SIF framework reflects the regulatory evolution of India's investment landscape and its better alignment with global markets.

SEBI had released a consultation paper in July 2024 seeking public comments for a new product proposed to be launched under the ambit of the SEBI (Mutual Funds) Regulations, 1996 ("MF Regulations") to ensure higher governance and still enable flexibility in portfolio construction. SEBI amended the MF Regulations on 16 December 2024 to introduce SIFs and, thereafter, via a circular dated 27 February 2025, released operational guidelines.

A wider spectrum

Currently, the spectrum of investment options spans mutual funds (MFs), portfolio management services (PMS), and alternative investment funds (AIFs), each catering to investor segments with varying risk-return profiles. While these vehicles have seen strong growth in assets under management (AUM), there remains a gap for investors looking for sophisticated strategies without meeting high minimum investment thresholds.

Many such investors, particularly those who could not meet the ₹50 lakh minimum for PMS or ₹1 crore for AIFs, often had limited options and sometimes turned to unregulated schemes. This posed serious risks to investor protection and portfolio outcomes.

As incomes rise and more Indians join the affluent and high-net-worth segments, there is growing demand for structured financial products that offer institutional-grade risk management, transparency, and return potential. This is the gap SIFs are designed to bridge.

Why SIFs matter

SIFs are well-positioned to cater to India's expanding middle and upper-income segments, offering structured investment strategies that align with their wealth aspirations. Designed as an intermediary product between MFs and PMS, SIFs are governed under SEBI's mutual fund regulations but offer enhanced portfolio flexibility and design.

India's fund management ecosystem is still evolving and has ample room to cater to varying investor sophistication levels. The SIF framework is a critical step forward. While some Category III AIF managers may express concerns about SIFs potentially diluting the AIF investor pool, others view it as a natural on-ramp for investor education and eventual transition to more complex alternatives.

As the market adapts and regulatory clarity improves, the role of SIFs will come into sharper focus.

Key features of SIFs

SIFs cater to sophisticated investors seeking a product between traditional mutual funds and PMS. Notable features include:

Minimum investment



Investors can participate with a ₹10 lakh minimum, significantly lower than PMS (₹50 lakh) or AIFs (₹1 crore). Accredited investors are exempt.

Portfolio concentration



SIFs allow greater concentration limits in equity and debt than traditional mutual funds, offering more latitude in construction.

Long/short strategies



SIFs enable access to equity and debt long-short strategies—previously only available via Category III AIFs.

Flexible liquidity



Redemption windows range from daily to bi-weekly. Structures include open-ended, close-ended, and interval options, depending on the strategy.

Eligibility criteria

The SIF license shall be granted by SEBI to an existing MF registered under Reg.9 of the MF Regulations, and meeting the eligibility criteria under one of the following routes:

Route 1

It has operational track record of at least 3 years of handling an average Asset Under Management ("AUM") of not less than INR 10,000 crores; or

Route 2

Appointment of Chief Investment Officer with fund management experience of 10 years in handling an average AUM of not less than INR 5000 crores and an additional fund manager with fund management experience of at least 3 years in handling average AUM of not less than INR 500 crores.

Further, in either of the routes stated above no action has been taken against the sponsor/AMC under Section 11, 11B and/or Section 24 of the SEBI Act, 1992 during the last 3 years.

The Asset Management Company ("AMC") of MF may share resources for operations across MF and SIF.

Regulatory alignment with **global best practices**

India's regulatory landscape is evolving in line with global markets. The introduction of SIFs complements broader policy moves such as discouraging speculative retail F&O trading and encouraging professional management of complex products.

Structured investment vehicles offering long-short, asset allocation, and thematic exposures are common in developed markets. SIFs are expected to lead the next wave of regulated product expansion, offering global-style strategies under India's regulatory umbrella.

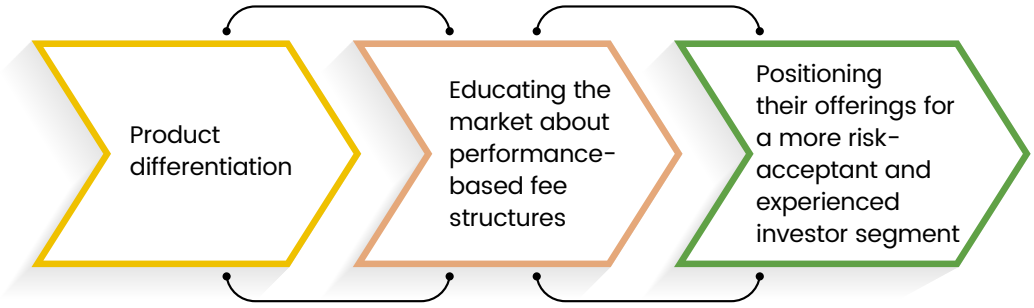
While long-short strategies have faced scale limitations in India due to taxation challenges, the SIF route offers a potentially more efficient structure, possibly pulling flows from Category III AIFs in certain cases. However, Category III AIFs still offer broader mandates, leverage, and flexibility, which sophisticated investors continue to value.

What this means for **Category III AIFs**

At this stage, SIFs are unlikely to replace Category III AIFs. Instead, they serve as a complementary vehicle that may expand the overall pie by introducing more investors to structured alternatives.

SIFs may attract investors who were previously priced out of PMS and AIFs, thereby democratising access. They may also encourage AMCs to innovate within regulatory guardrails, using SEBI's frameworks for responsible, risk-managed products.

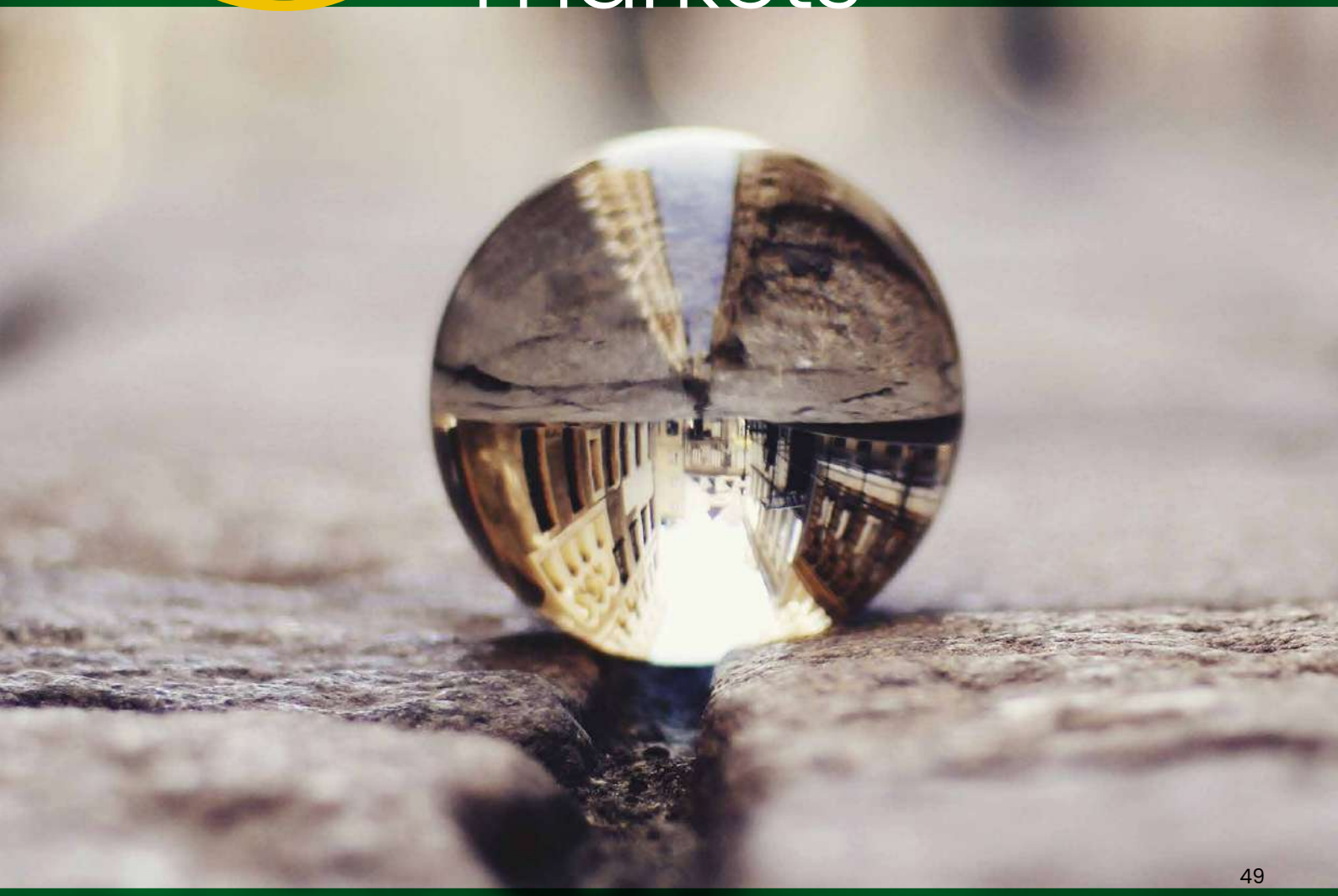
Category III managers, meanwhile, will need to focus on:



Over the next 6–12 months, SIFs will test the market's appetite for a new asset class.

AMCs with existing MF licenses are expected to be early adopters, while others may follow once proof of concept is established. With investor familiarity and regulatory tweaks, this new category could evolve into a meaningful part of India's investment architecture.

6 The global lens: Lessons from international markets



A changing **investment playbook**

The first half of 2025 has reaffirmed what seasoned investors have long suspected—volatility is the new normal. Global markets are navigating a complex environment marked by shifting interest rate regimes, fragile geopolitical equations, and recalibrating liquidity. While Indian equities have touched record highs, concerns over stretched valuations and global shocks persist.

For high net worth individuals (HNIs), family offices, and institutions, the focus has shifted from chasing outperformance to seeking consistency with limited downside. This is where absolute return strategies have come into sharper focus—designed to protect capital and deliver stable, risk-managed returns across cycles.

Globally, hedge funds have long employed absolute return strategies such as long/short equity, market-neutral, and macro plays to generate uncorrelated outcomes. These structures aim not to outperform in bull cycles alone, but to reduce volatility and provide smoother return profiles throughout market regimes.

Global context: **where Absolute Return works**

As of the fourth quarter of 2024, the global hedge fund industry managed assets totaling approximately $5.2 trillion[8]. Projections indicate that hedge fund assets under management (AUM) **could reach $13 trillion by 2032, with a CAGR of 12%[9]**. Such optimistic forecasts underscore the increasing demand for alternative investment strategies among **institutional and individual investors alike**.

Absolute return and market-neutral strategies now account for 15–20% of this asset base, underscoring their growing role in global portfolios. Within the hedge fund spectrum, **multi-strategy, macro, and event-driven funds** are set to lead asset flows, driven by elevated volatility and geopolitical unpredictability.

Investor sentiment toward hedge funds has improved since the 2022 market drawdowns. These strategies have proven their ability to preserve capital during crises and participate in recoveries, making them increasingly relevant in institutional portfolios (As indicated in Exhibit 14). A recent allocator survey showed that 36% of institutions plan to commit new capital to hedge funds in 2025, while 43% will invest opportunistically—signalling robust demand for absolute return-oriented approaches[10].

8. https://www.barclayhedge.com/solutions/assets-under-management/hedge-fund-assets-under-management/
9. Allied Market Research (https://www.globenewswire.com/news-release/2024/03/20/2849448/0/en/Hedge-Fund-Market-to-Reach-13-Trillion-Globally-by-2032-at-10-7-CAGR-Allied-Market-Research.html)
   2020 AUM was $4Tn : Preqin
10. https://www.withintelligence.com/insights/hedge-fund-outlook-2025/

Exhibit 14: Annual Return Comparison



*up to November 2024
Source: With Intelligence

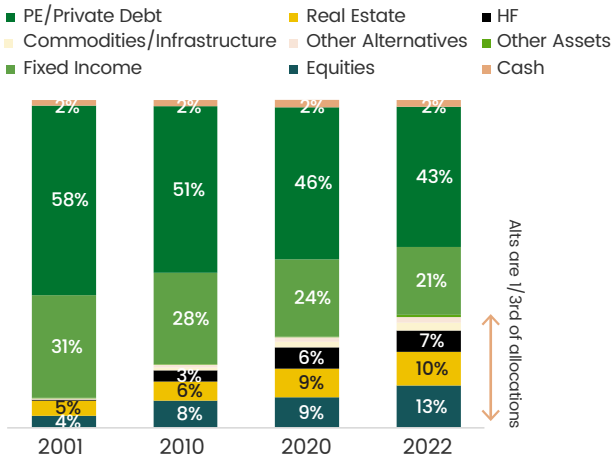
The diversity of hedge fund strategies to employ **distinct risk-return profiles** enables investors to construct **resilient portfolios that can navigate various market conditions.**

Institutional interest **driving growth**

Institutional investors, including pension funds and sovereign wealth funds, are significantly driving the growth of hedge funds, particularly those employing **quantitative strategies.** These strategies are attractive due to their ability to enhance diversification, deliver uncorrelated returns, and maintain consistent performance regardless of broader market conditions

Exhibit 15: Pension Fund assets by asset class %[11]

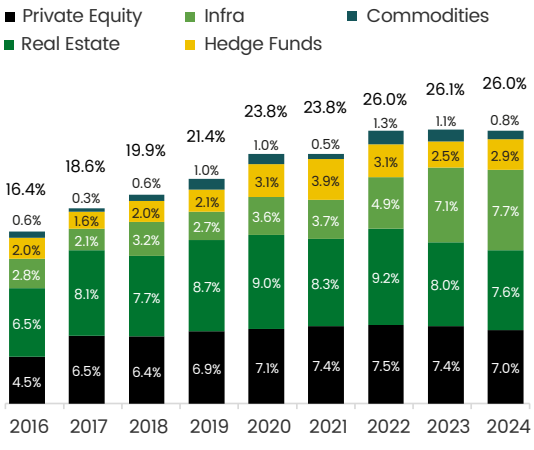
Pension Fund Assets by Asset Class, %



Data as at December 31, 2022. Source: Public plans data.

Exhibit 16: Sovereign Wealth Funds allocation to alternatives [12]

Sovereign Wealth Funds Allocation to Alternatives, %



Data as at July 31, 2024. Source: Invesco Global Sovereign Asset Management Study.

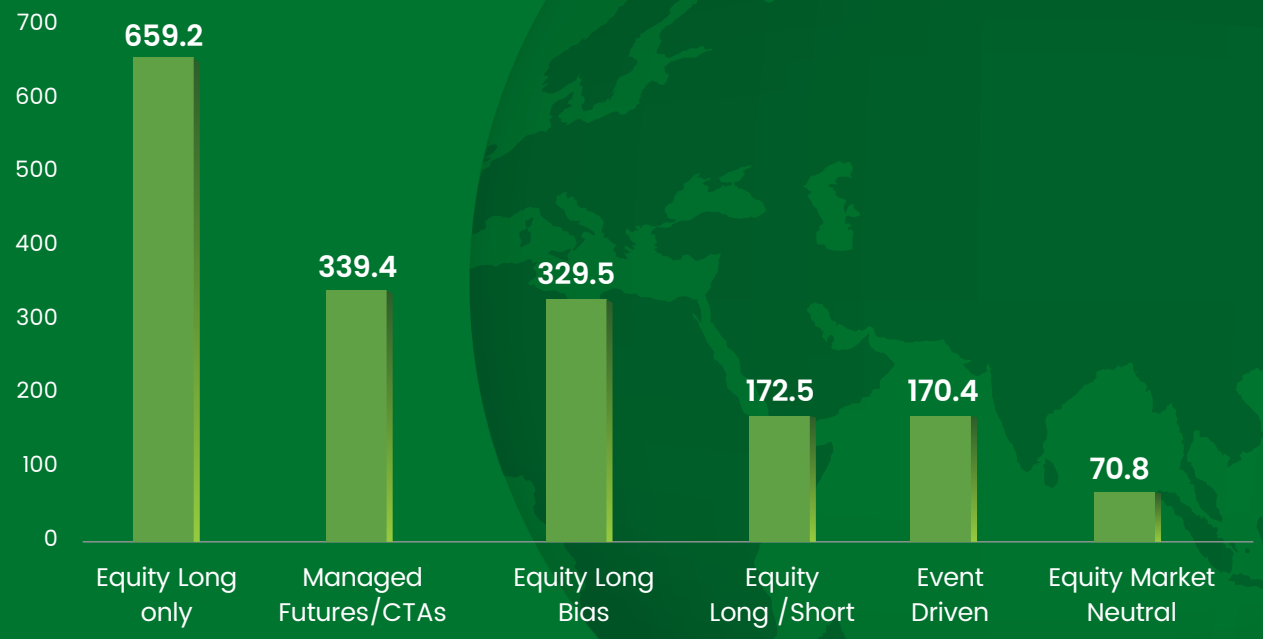
11. 12. Nuvama AltLens

Quant funds are increasingly being viewed as essential building blocks within institutional portfolios. During global downturns or equity drawdowns, pension funds have historically increased allocations to **CTAs (commodity trading advisors)** due to their uncorrelated performance. The strategic aim is to mitigate portfolio losses and capitalise on CTAs' ability to perform during periods of elevated volatility.

A notable trend is the institutional tilt toward **managed futures/CTAs** and **market-neutral strategies**. As of 2024, the AUM of managed futures exceeds that of equity long/short funds, driven largely by institutional—not retail—allocations. Market-neutral strategies now represent approximately 40% of equity long/short AUM globally, further demonstrating institutional appetite for low-beta, low-volatility alternatives.

Some of the largest global hedge funds such as Winton, Man AHL, Transtrend, Systematica, and CFM are CTAs, underscoring the significance of this category in institutional capital allocation.

Exhibit 17: Global Hedge fund market by type : (USD Billion) 2024[13]



Unexplored potential of the **indian market**

As investor portfolios evolve in India, the need for uncorrelated return sources becomes more pressing. India's deep and liquid capital markets, coupled with strong economic fundamentals and a progressively stable regulatory regime, offer a compelling proposition.

Global hedge funds are increasingly eyeing India as a long-term destination, not just for capital deployment, but also for talent, strategy replication, and collaborative models. With rising HNI and institutional interest in risk-managed products, India could soon emerge as a key market in the global hedge fund ecosystem.

13. https://www.barclayhedge.com/solutions/assets-under-management/hedge-fund-assets-under-management/



7 The future of Category III AIFs in India: **Strategic roadmap**

As India's investment landscape continues to evolve, category III AIFs are entering a new phase of growth and strategic relevance. Our primary conversations with fund managers and wealth platforms reflect strong conviction in the future of these vehicles—not just as performance-driven products, but as platforms of innovation, globalisation, and diversification.

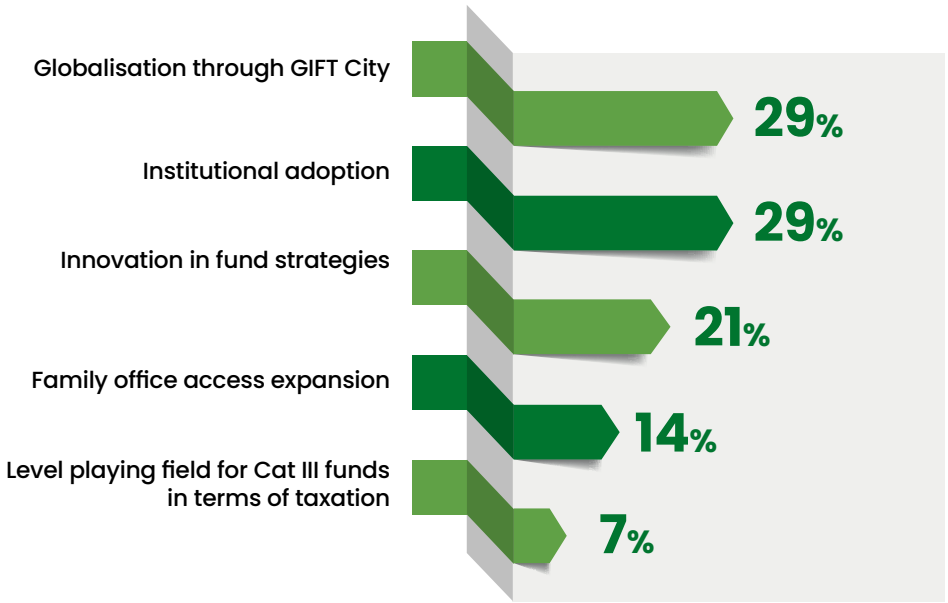
Many participants in our interactions noted that the product has crossed the "experimentation phase." It is now entering a period where scale, consistency, and institutionalisation will determine its trajectory.

Across the board, there is growing clarity on strategy choices, better alignment with investor objectives, and a willingness to push boundaries—be it through quant innovation, multi-asset approaches, or integration with global platforms like GIFT City.

What's driving **future growth**?

When asked about the most critical factors that will shape the future of this category, fund managers identified the following growth enablers:

Q: In your view, what will be the biggest driver of future growth for Category III AIFs?

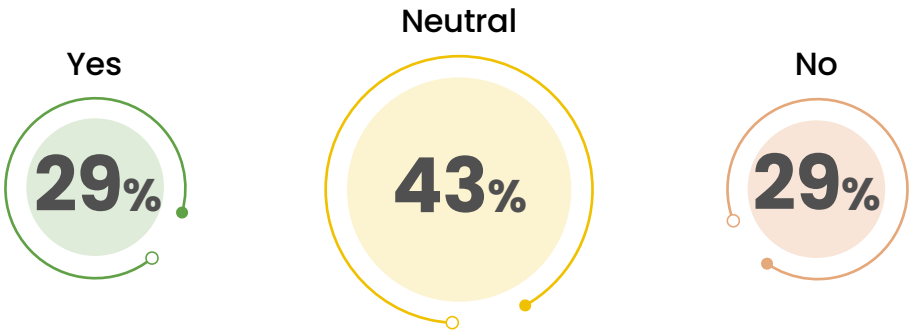


These responses signal a clear desire to deepen the market—both through global connectivity and better onshore access.

Perception of **regulatory progress**

When asked if recent regulatory changes have positively impacted the category:

Q: Do you feel recent regulatory changes have positively impacted Category III AIFs?



This underscores the need for more meaningful and tangible regulatory reforms that directly support growth in this segment.

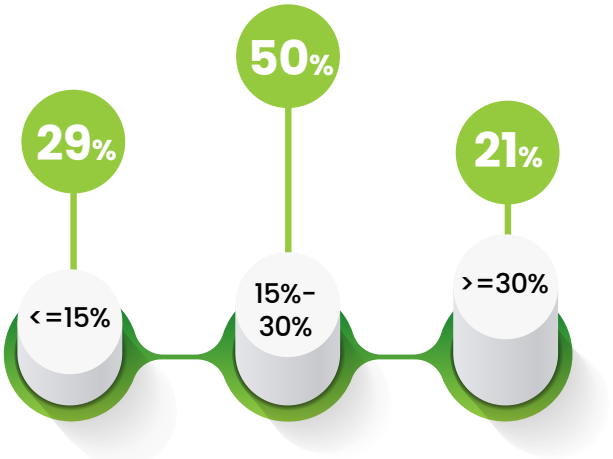
Momentum continues: **commitment growth outlook**

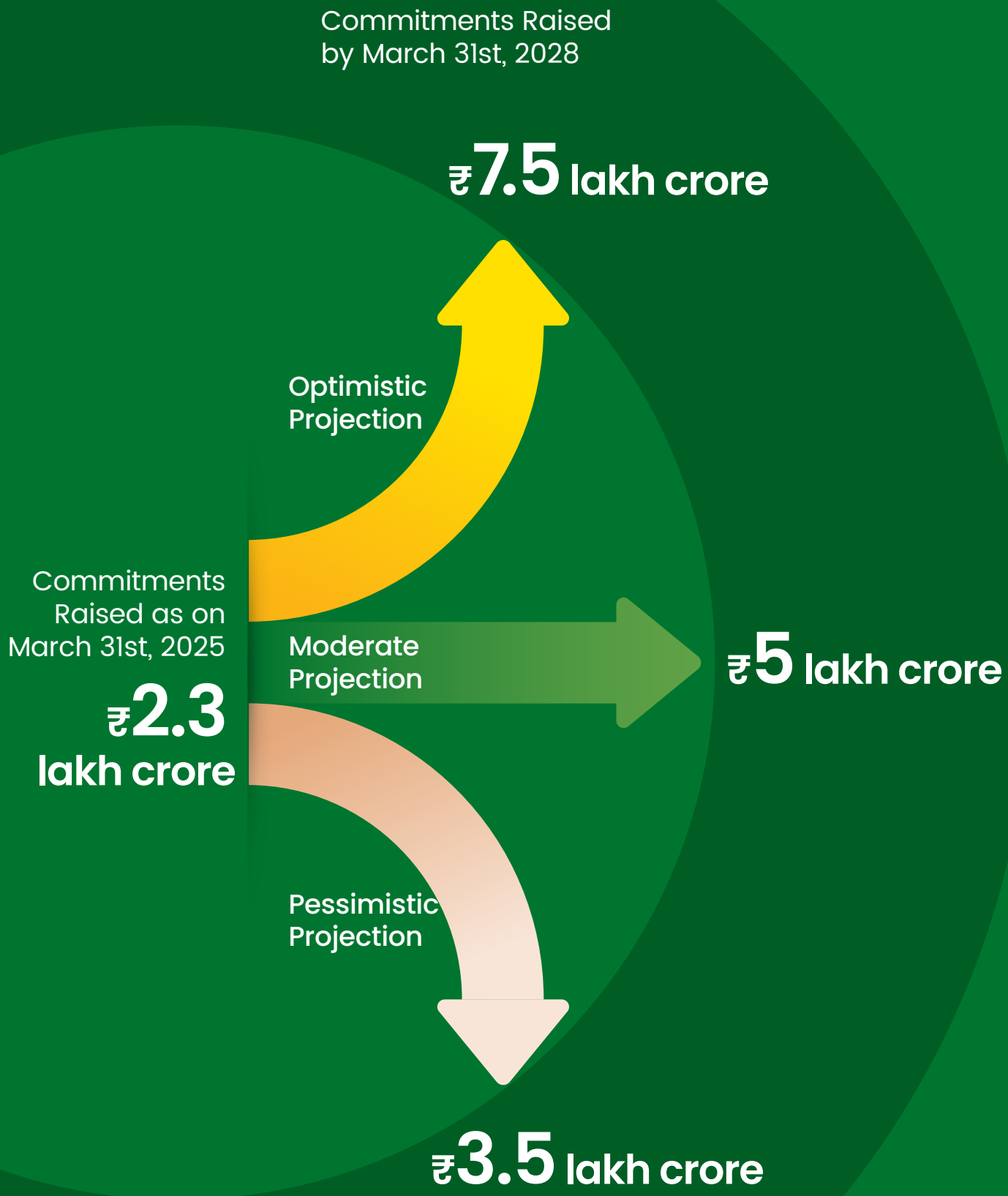
Optimistic projections suggest that commitments in Category III AIFs could touch

₹7.5 lakh crore
over the next three years

if the current trajectory is maintained. This reflects the growing confidence in the category's role as a credible vehicle for sophisticated, strategy-led investing

Q: How much % growth in commitments do you anticipate in the CAT III AIFs over the next 3 years?





*Optimistic = current trajectory maintained (50% CAGR);
Moderate = industry stakeholder projections (30% CAGR);
Pessimistic = industry stakeholder projections (15% CAGR)

Manager perspectives: friction, fixes and forward paths

As the category III AIF space evolves, it continues to face a set of persistent structural challenges that are constraining broader growth and institutionalisation.

1



Distribution and access

While investor interest is rising, widespread distribution gaps remain. Many fund managers highlight the limited awareness among distributors—especially for quant, long-short, or market-neutral strategies. Outside of large platforms, knowledge and comfort with these complex offerings is still shallow.

Performance-led marketing is another challenge. Despite strong fund performance, managers are restricted from communicating results in a formalised, compliant manner. This lack of visibility reduces traction among potential investors. In contrast, mutual funds enjoy a clear edge due to broader distributor access and robust performance disclosure infrastructure.

Additionally, managers cited the need for industry-wide return databases and enhanced parity with PMS and MF products when it comes to transparency and reporting.

2



Taxation and regulatory treatment

Taxation remains a major point of contention. The current framework—wherein returns are taxed annually as business income—disincentivises long-term capital allocation. The absence of pass-through status further dampens post-tax returns and limits AIFs' competitiveness against traditional investment vehicles.

Several managers also flagged regulatory restrictions—such as the inability to invest in sectoral ETFs—which constrain their ability to express sectoral or thematic views, especially in hedged strategies

3



Innovation and operational clarity

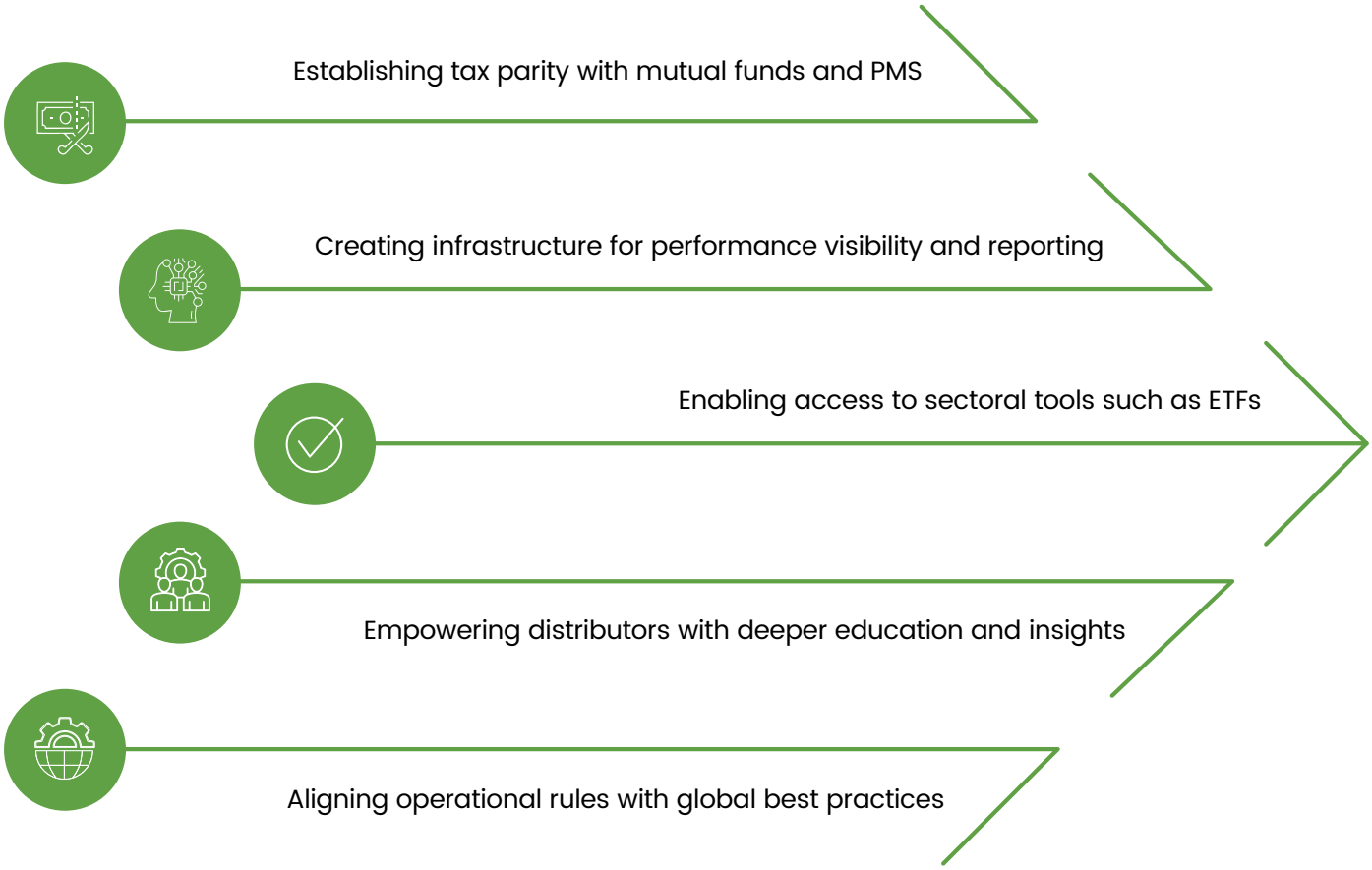
Innovation is happening, but friction persists. Many managers noted long onboarding cycles, paperwork hurdles, and delays in scheme approvals. Operational uncertainty—around redemptions, marketing practices, and compliance expectations— adds to the complexity of managing and scaling strategies.

There is growing interest in SIF-like structures among alternate managers, but current eligibility norms restrict this avenue largely to mutual fund houses. Managers are seeking a more inclusive framework that encourages product innovation without stifling operational agility.

Across these challenges, fund managers also emphasised the need for better risk management norms, pass-through tax clarity, and the removal of equal trail commission mandates that currently hinder distributor incentives.

The road **ahead**

The future of category III AIFs in India hinges on enabling scale without compromising oversight. As the industry stands at an inflection point, the path forward must include:



With the building blocks in place: manager innovation, investor demand, and regulatory attention, Category III AIFs are poised to become a core component of the Indian capital market ecosystem. However, to move from niche to mainstream, the ecosystem must now evolve in step with the aspirations it seeks to serve.

IVCA CAT III Fund Members

Special thanks to all the IVCA members for sharing their insights to develop this report.

Abakkus Asset Manager

Abakkus Asset Manager Private Limited (Formerly known as Abakkus Asset Manager LLP) acts as Investment Manager to various SEBI registered Category I, II & III AIF(s) and has launched multiple schemes.

Aditya Birla Sun Life AMC

Founded in 1994, Aditya Birla Sun Life AMC is one of India's oldest and most trusted AMC. With an AUM of more than ₹4 lakh crore and strong international presence, it serves over 10.6 million investors. Renowned for our strong market expertise and client-centric product innovation, we offer a broad range of investment solutions across diverse asset classes.

Alchemy Capital

Alchemy has grown in repute over the last 2 decades and is currently one of the largest Portfolio Management Services (PMS) provider in the country, having lent our advice and investment skills to USD 1.2 bn (as on May 31, 2025) worth of group assets. Alchemy's institutional pedigree rests on integrity, process, insight and an unrelenting endeavour to offer consistently superior client experience.

AlphaGrep IM

AlphaGrep IM is the investment management arm of AlphaGrep, focused on systematic, data-driven quantitative strategies across CAT III AIFs and PMS products. They leverage advanced statistical methods, empirical research, and cutting-edge technology for trading, portfolio management, and risk monitoring.

Key highlights:

- Operates globally with a strong focus on Asia, co-located at 20+ exchanges
- Uses diverse data sources including tick data, earnings, macro, and alternative datasets
- Among the top trading firms in India by volume and profitability

ASK Hedge Solutions

ASK Hedge Solutions (Registered Entity: ASK Long-Short Fund Managers Pvt Ltd), established in 2023 and backed by the Blackstone-affiliated ASK Asset & Wealth Management Group, specializes in delivering risk-adjusted return products and strategies to diverse investors seeking portfolio diversification and uncorrelated investment options.

The firm is led by seasoned hedge fund veterans Vaibhav Sanghavi and Piyush Shah, who have collaborated since 2006 brining in over 20 years of expertise and pioneering India's Category III Long-Short Alternative Investment Fund (AIF) since 2013.

With their deep understanding of risk dynamics, the team adeptly navigates diverse market scenarios, devising innovative solutions. The team currently manages two open-ended Category III AIFs: the ASK Absolute Return Fund, targeting consistent alpha over liquid fixed income alternatives with low volatility and capital preservation through dynamic long-short positions; and the ASK Index Plus Fund, which overlays a quantitative long-short edge on a long-only factor investing approach to outperform the Nifty 50 Index with reduced drawdowns and correlation.

Cavi Capital

CAVI Capital is a SEBI-registered investment management firm focused on long-only, fundamentally driven public equity investing in India. CAVI Capital follows a first principles, value-oriented investment approach, concentrating on buying high-quality businesses at rational prices and maintaining a long-term investment horizon. The firm emphasizes deep fundamental research, concentrated portfolio allocation, and low churn, seeking to compound investor capital through disciplined execution.

Community Investment Management

Community Investment Management (CIM) is a global institutional impact investment manager that provides strategic debt funding to scale and demonstrate responsible innovation in lending to underserved borrowers in the United States and emerging markets. Our work aims to advance financial inclusion by partnering with select tech-enabled lending partners, improve financial health and drive widespread adoption of such fintech innovation by the financial mainstream.

Dolat Capital

With over 70 years of pioneering expertise, Dolat Capital has built a strong legacy in crafting sophisticated trading and derivative strategies. Leveraging its deep experience across institutional broking, NBFCs, investment banking, and asset management, the group brings an innovation-led approach to proprietary fund management and alternative investment strategies under Dolat Capital.

Emkay Investment Managers

Emkay Investment Managers Limited (EIML) is the Asset Management arm of Emkay Global, a 25-year-old financial services group. EIML's investment practice is backed by a highly skilled and experienced equities research team. Our combined abilities open up multiple high-quality investment opportunities for our clients to invest across the breadth of the Indian equities market.

Ionic Asset Management

Long only equity strategy with investment focus on profitable businesses driven by innovation across various sectors including consumer tech, health tech, fintech making it truly sector agnostic.

Geography agnostic fund which will invest into US, China, UK, Europe and other East Asian economies, providing international diversification alongside achieving low correlation with domestic portfolio.

Focused portfolio size with 20-35 companies based on an active, in-house strategy and support of global research house with offices in US, Europe, Hong Kong and Singapore with a team of 20+ analysts.

Malabar Investments

Malabar Investments was founded in 2008 and over the past 17 years, we have been focused on making concentrated, long term investments in Indian small and midcap companies (both public and private). We manage USD 1.1bn in AUM, of which ~18% is the GP capital, and the rest largely coming from endowments, foundations as well as single and multi family offices.

Motilal Oswal AMC

Motilal Oswal AMC is one of the pioneers in the Category III Long Only Equity AIF segment. With our Hi-Quality Hi-Growth style of focused investing we actively manage over 17,500 Crs of AUM across 23 high conviction funds in close ended, open ended and GIFT City formats. One of the very few AMCs that offer specialised investment solutions in the segment via a listed unlisted combination. Our portfolios are designed to capitalise on the next potential growth wave with a dominant allocation to house identified themes such as Financialization of Savings, Luxury Consumption, Capital Goods, Make in India, New Age Tech Services and Healthcare Ecosystem.

Multi-Act Private Equity

Multi-Act Select Opportunities Fund. Launched in March 2024, the Multi-Act Select Opportunities Fund is a Category III AIF that follows a long-only strategy focused on listed equities. The fund seeks to invest in high-quality businesses across market capitalisations that offer either strong business momentum or meaningful value opportunities. It is sector-agnostic in approach and structured as an open-ended fund with no cap on fund size. Given its direct equity exposure, the strategy is suited to investors with a higher risk appetite. The fund builds on Multi-Act's legacy as a family office since 1998 and its experience managing capital for UHNIs and family offices through Portfolio Management Services (PMS) since 2011.

Negen Capital

Our fund focuses on finding undervalued investment opportunities with identifiable catalysts such as corporate actions, long term industry trends or regulatory changes to generate attractive risk-adjusted returns across different market segments, including Special Situation Investments, Pre-IPOs, and Anchor book investments. In addition, our fund also does regular value investing from time to time where we look to buy good quality businesses below their perceived fair value in our view.

Nippon Life India AIF Management Limited

Nippon Life India Asset Management Limited (NAM India), our parent company got its certificate of incorporation in February 1995 and has been in existence over 27 years. Nippon Life India AIF Management Limited is a 100% subsidiary of Nippon Life India Asset Management Limited and began operations on 13th June, 2000.

Northern Arc

Northern Arc Investment Managers is a specialized asset management firm focused on delivering structured debt solutions and managing alternative investment funds targeting financial inclusion and underserved sectors across India.

Nuvama Asset Management

Nuvama Asset Management is the alternatives focused asset management arm of the Nuvama group managing assets of ~USD 1.5bn across three verticals: private markets, listed equities and real estate.

PGIM India Asset Management

PGIM is a global leader in providing access to investing. PGIM has a team of investment professionals that include experts in portfolio construction. Our strategies are diversified across sectors, themes, investment styles and time frames to help you achieve the full benefits of diversification.

Sakman Capital

We are a research-driven SEBI-approved AIF CAT 3 fund investing in public market equities. We are focused on high-quality mid-cap and small-cap stocks that have a strong brand name, high growth potential and good balance sheets. We look for companies that are going through transient challenges, with discounted valuations and a road map for recovery. We aim to deliver excess returns over benchmark, with limited risk.

Sameeksha Capital

Sameeksha is a SEBI-registered and IFSCA (GIFT City) regulated boutique investment management firm based out of Ahmedabad. We manage approximately ₹2,300 crore across various investment platforms, including Portfolio Management Services (PMS~1100 crs), Domestic Alternative Investment Fund(~920 crs) and Offshore Alternative Investment Funds (~116 crs), and Global PMS (180 crs).

Founded by Mr. Bhavin Shah—an accomplished investment professional with deep expertise in both Indian and global equity markets—Sameeksha is built on a foundation of disciplined, research-intensive, and bottoms-up investing. Over the past nine years, the firm has consistently delivered industry-leading absolute and risk-adjusted returns. Our Domestic PMS went live on 1st April 2016. Since inception, Sameeksha PMS has achieved an unparalleled feat: On a rolling five-year return basis as of 30th June 2025, top decile ranking among all multicap PMSes for 52 consecutive months and median annualized alpha of 9%. Even more impressive are the risk-based statistics: Sharpe ratio far superior to the benchmark and downside capture of only 41%, far better than all the popular mutual funds majority of the investors have invested in. Sameeksha's Domestic AIF has also achieved a ranking of 2nd out of 45 funds for the three-year period and 3rd out of 64 funds for the two-year period ending 30th June, 2025 with downside capture of only 30%. We have delivered this performance without taking undue risk and hence our portfolio statistics show superior risk adjusted performance ratios.

Sundaram Alternate Assets

Sundaram Alternate Assets manages ~INR 7,200 crore across AIFs (CAT II & CAT III) and PMS, offering differentiated solutions for HNIs and institutions. With strong governance, a seasoned team, and a focus on capital protection and risk-adjusted returns, SAA AUM has grown by 30% CAGR over the last 7 years, backed by Sundaram Group's legacy.

Trilithon Asset Management

Trilithon Hidden Gems, a Category III AIF by Trilthon Asset Management, is a long-only, 4-year close-ended fund focused on India's microcap and SME segments, targeting companies with market capitalizations between ₹200–2,500 crore. The fund invests in "consistent micro-monopolies"—businesses with sustained sectoral leadership, niche market focus, high entry barriers, and strong corporate governance. Its proprietary 6-year investment framework, which has historically delivered index beating returns, applies a bottom-up stock selection approach. This process combines deep financial analysis, governance screening, and evaluation of sectoral dominance to identify scalable, high-conviction opportunities. The investment team brings over two decades of experience in public market investing and research, with a proven track record in navigating India's under-researched microcap space.

ValueAxis Capital

ValueAxis Capital Compounder Fund is a SEBI registered Category III Alternative Investment Fund. ValueAxis Equity Services is the Investment Manager for the fund. The Fund focusses on delivering high alpha through carefully planned Investment strategies in various asset classes.

With access to a wide range of alternative assets and innovative strategies, we empower our investors to diversify and grow their portfolios with precision and expertise.

Vivriti AMC

Vivriti Asset Management, subsidiary of Vivriti Capital, was set up in February 2019 to raise, invest and manage private credit funds from domestic and global investors who prefer to earn a superior risk adjusted return, over traditional investment avenues or direct bond investments, by leveraging our group deep focus in mid-market companies, sector understanding and leveraging the flexibility in structuring offered by an AIF vehicle. the total commitments raised at AMC (across funds) is over INR 5,500 Crores since inception with investments of nearly INR 6,800 Cr.

Whitespace Alpha

WhitespaceAlpha is a SEBI-registered Category III AIF leader managing $290M+ AUM. We specialize in generating consistent alpha through quantitative and distressed asset strategies, offering low-volatility, market-neutral solutions across domestic equities, GIFT City funds, and stressed assets. Our institutional-grade frameworks empower global investors to access India's growth with tax efficiency and regulatory rigor.

360 One Asset Management
3P Investment Managers
Aequitas Investments
Asymmetric Asset Management
Avendus
Axis MF
Buoyant Capital
Capitalmind
Dezerv Investments
Divinion Dynamic Fund
DSP Asset Managers
Equity Intelligence
ICICI Prudential AMC
InCred Alternative
Ionic Asset Management
ITI Group
Julius Baer
Kotak Alternate Asset Managers
Marcellus Investment Managers
Motilal Oswal AMC
Multi-Act Private Equity
One Up Financial Consultants
SageOne Investment Managers
Sakman Capital
SBI Funds Management
Singularity
Tata AMC
Unifi Capital
ValueQuest
Varanium Capital
White Oak AMC

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 works closely with financial institutions to deliver in depth primary & secondary research, data driven business strategy and content solutions. Eleveight partners with marquee clients such as Nippon India Mutual Fund, Aditya Birla Sun Life AMC, Sundaram Group, 360 One Group, Trust Group, Nuvama Group and many such esteemed names.

Positioned at the intersection of research and strategy, Eleveight helps clients decode investor behaviour, track emerging trends, assess market opportunities, and craft research-backed narratives that enhance decision-making and stakeholder engagement.

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