

CONTENTS

	<i>Page</i>
<i>Foreword</i>	<i>I-3</i>
<i>Acknowledgement</i>	<i>I-5</i>
<i>About NISM Certifications</i>	<i>I-7</i>
<i>About the Certification Examination for Alternative Investment Funds (Category I and II) Distributors</i>	<i>I-9</i>
<i>Syllabus Outline and Weightages</i>	<i>I-17</i>

CHAPTER 1

OVERVIEW OF ALTERNATIVE INVESTMENTS

1.1	Introduction to Alternative Investments	<i>1</i>
1.2	Alternative Investment Avenues	<i>5</i>
1.3	Alternative Investments – Antecedents and Growth	<i>8</i>
1.4	Distinguishing ‘Alpha’ and ‘Beta’	<i>10</i>
1.5	Role of Alternative Investments in Portfolio Management	<i>11</i>

CHAPTER 2

ALTERNATIVE INVESTMENT FUNDS IN INDIA

2.1	Evolution and Growth of AIFs in India	<i>17</i>
2.2	Trends Post-2008	<i>19</i>
2.3	Types of AIFs	<i>21</i>
2.4	Comparison of AIF Categories	<i>26</i>
2.5	Suitability and Enablers for AIF Products in India	<i>28</i>
2.6	Current AIF Market Status	<i>29</i>

CHAPTER 3

CONCEPTS IN THE AIF INDUSTRY

3.1	The Private Capital Ecosystem	<i>31</i>
3.2	Due Diligence	<i>38</i>
3.3	Sponsor Commitment	<i>39</i>
3.4	Capital Commitment	<i>40</i>
3.5	Capital Invested	<i>41</i>
3.6	Drawdown	<i>41</i>
3.7	Fees & Expenses	<i>43</i>
3.8	Preferred Returns and Additional Returns	<i>45</i>
3.9	Distributions/ Waterfall	<i>47</i>
3.10	First close and Final close	<i>50</i>
3.11	Private Placement Memorandum (PPM)	<i>51</i>
3.12	Co-investments	<i>51</i>
3.13	Term Sheet and Summary of Principal Terms (SOPT)	<i>52</i>
3.14	Environmental, Social and Governance	<i>52</i>

CHAPTER 4

AIF REGULATORY FRAMEWORK

4.1	SEBI (Alternative Investment Funds) Regulations, 2012	<i>57</i>
4.2	General Provisions of the Foreign Exchange Management Act, 1999	<i>84</i>

CHAPTER 5

ALTERNATIVE INVESTMENT FUND STRUCTURING

5.1	Introduction	<i>97</i>
5.2	Principle of 'Pooling'	<i>98</i>

	<i>Page</i>
5.3	General 'Pooling' Considerations 99
5.4	Anatomy of AIF Constitution 101
5.5	Templates for AIF Structuring 103

CHAPTER 6

RISK AND RETURN – FUND AND INVESTOR PERSPECTIVE

6.1	Basics of Risk and Return 111
6.2	Nature and Types of Debt Investments 112
6.3	Nature of Equity Investments 115
6.4	Nature of Investor Risks in AIF 116
6.5	Primary Metrics of Returns 119
6.6	Return Measurement Metrics in Alternative Investments 122
6.7	The J Curve 129
6.8	Worked out Case 132
Annexure 6.1: Template of Important Risk Factors at Fund Level and Investor Level 142	

CHAPTER 7

INVESTMENT PROCESS AND GOVERNANCE OF FUNDS

7.1	Deal Sourcing 147
7.2	Due Diligence Review (DDR) 151
7.3	Definitive Agreements 153
7.4	Overview of Important Investor Protection Rights 155
7.5	Co-investments in AIFs 159
7.6	Regulation on Governance Structure in AIF 160
Annexure 7.1: Format of Compliance Test Reports (CTRs) 171	

CHAPTER 8

FUND DUE DILIGENCE – INVESTOR PERSPECTIVE

8.1	Investor Perspective	<i>177</i>
8.2	Fund Selection Criteria	<i>178</i>
8.3	Evaluating the Fund Manager	<i>180</i>
8.4	Importance of Fund Due Diligence	<i>181</i>
8.5	Broad Aspects of Fund Due Diligence	<i>184</i>
8.6	Fund Benchmarking	<i>186</i>
8.7	Sales Strategy Formulation by Distributor	<i>190</i>
	Annexure 8.1: Illustrative Fund Due Diligence Information and Questionnaire	<i>193</i>

CHAPTER 9

LEGAL DOCUMENTATION AND NEGOTIATION – INVESTOR PERSPECTIVE

9.1	Introduction	<i>203</i>
9.2	The Trust Document/ Limited Liability Partnership Deed/ Memorandum and Articles of Associations	<i>204</i>
9.3	The Investment Management Agreement	<i>205</i>
9.4	The Subscription (Investor Contribution) Agreement	<i>205</i>
9.5	Private Placement Memorandum	<i>207</i>
9.6	Support Services Agreements	<i>218</i>
	Annexure 9.1: Investor Charter for Alternative Investment Funds	<i>221</i>

CHAPTER 10

FUND MONITORING, REPORTING AND EXIT

10.1	Monitoring Alternative Investment Fund Progress and Performance	<i>227</i>
-------------	---	------------

	<i>Page</i>
10.2 Regulatory Framework for Fund Monitoring and Reporting	228
10.3 Context and Scope of Effective Fund Monitoring	230
10.4 Fund Reporting	231
10.5 Conflicts and Concerns in Fund Reporting	233
10.6 Exit Options due to Material Changes in PPM	233
10.7 Secondary Exits (Secondaries)	235
10.8 Exits from Portfolio Companies	236
10.9 Winding Up of an AIF	239
10.10 Liquidation Scheme	240
10.11 Dissolution Period	240

CHAPTER 11

VALUATION

11.1 Introduction	243
11.2 Valuation Basics for Fixed Income Instruments	244
11.3 Approaches to Equity Valuation	246
11.4 Approaches to Business Valuation	246
11.5 Asset based Valuation	248
11.6 Discounted Cash Flow (DCF) Valuation	251
11.7 Relative or Multiple based Valuation	257
11.8 Valuation of AIF Portfolio Investments (Investee Companies)	261
11.9 General Approach to Fund Valuation	264
11.10 Valuation Regulations	265
11.11 Role of Valuers and Limitations of Valuation	266
11.12 Distributor Responsibility to Investors	268
Annexure 11.1: Valuation Approaches for Start-Ups and Internet Businesses	269

CHAPTER 12

TAXATION – INDIA SPECIFIC

12.1	Basic Framework	277
12.2	AIF Taxation	278
12.3	Business Income and Investment Income	281
12.4	Taxation for residents in India	285
12.5	Taxation of Non-residents in India	286
12.6	General Anti-Avoidance Rules (GAAR)	290
12.7	Goods and Services Tax (GST)	291
12.8	Stamp Duty and Local Taxes	292
12.9	Foreign Tax Account Compliance Act and Common Reporting Standard	292

CHAPTER 13

GOOD PRACTICES

13.1	Introduction	295
13.2	Role of AIF Distributor	296
13.3	Distributor Agreement	296
13.4	Preparation of Distribution Pitch	297
13.5	Scope of Distribution Services (Pre and Post)	298
13.6	Client Confidentiality and Data Privacy at Distributor Level	300
13.7	Prohibit Fraudulent and Unfair Trade Practices	302
13.8	Prohibit Conflict of Interest	303
13.9	Distributor Good Practices	304