CONTENTS

PAGE

Foreword *I-3*
Acknowledgement *I-5*
About NISM Certifications *I-7*
About the Certification Examination for Category I and II Alternative Investment Fund Managers *I-9*
Syllabus Outline and Weightages *I-21*

SECTION A
BASICS OF INVESTMENTS

CHAPTER 1
INVESTMENTS LANDSCAPE

1.1 Investment *3*
1.2 Investment versus Speculation *5*
1.3 Investment Objectives *5*
1.4 Estimating the required rate of return *6*

CHAPTER 2
TYPES OF INVESTMENTS

2.1 Traditional Investments vs. Alternative Investments *19*
2.2 Types of Traditional Investments *21*

PAGE

2.3 Types of Alternative Investments *24*
2.4 Channels for making investments *29*
2.5 Role of Alternative Investments in Portfolio Management *31*
2.6 Alternative Investments – Antecedents and Growth *34*

SECTION B

UNDERSTANDING THE AIF ECOSYSTEM

CHAPTER 3

ALTERNATIVE INVESTMENT FUNDS IN INDIA AND ITS SUITABILITY

3.1 Evolution and Growth of AIFs in India and Factors enabling preference for Indian AIF market *41*
3.2 Types of AIFs *44*
3.3 Comparison of Categories *49*
3.4 Suitability of AIF products to Investors *51*
3.5 Current AIF Market in India *56*
3.6 Role of AIFs in Portfolio Diversification *57*
3.7 AIF as a Risk Management Tool *57*

CHAPTER 4

ALTERNATIVE INVESTMENT FUND ECOSYSTEM

4.1 Concepts prevalent in the AIF industry *61*

CHAPTER 5

ALTERNATIVE INVESTMENT FUND STRUCTURING

5.1 Principle of 'Pooling' *92*
5.2 General 'Pooling' Considerations *93*

PAGE

5.3 Anatomy of AIF Constitution *95*
5.4 Common Fund structures of AIF *97*
5.5 Comparative Analysis *105*

CHAPTER 6

FEE STRUCTURE OF ALTERNATIVE INVESTMENT FUNDS

6.1 Management Fees and Other Expenses *109*
6.2 Hurdle Rate *114*
6.3 High-Water Mark *118*

CHAPTER 7

FUND PERFORMANCE AND BENCHMARKING

7.1 Risks in AIF *132*
7.2 Types of Risks in AIFs *135*
7.3 Return Measures in Alternative Investments *142*
7.4 Pre and Post Tax Returns *162*
7.5 Benchmarking *163*
7.6 Benchmarking Agencies *165*
7.7 Worked out Case *170*
ANNEXURE 7.1 *181*

CHAPTER 8

LEGAL DOCUMENTATION AND NEGOTIATIONS

8.1 Introduction *185*
8.2 The Trust Document/Limited Liability Partnership Deed/ Memorandum and Articles of Associations *186*
8.3 The Investment Management Agreement *187*

PAGE

8.4 The Subscription (Investor Contribution) Agreement *188*
8.5 Private Placement Memorandum *190*
8.6 Wrapper *202*
8.7 Support Services Agreements *203*
ANNEXURE 8.1 *208*

SECTION C

MANAGING AIF INVESTMENTS – CATEGORY I AND II AIFS

CHAPTER 9

INVESTMENT STRATEGIES

9.1 Investment Strategies used by Category I and II AIFs *217*

CHAPTER 10

INVESTMENT PROCESS AND GOVERNANCE OF FUNDS

10.1 Deal Sourcing *231*
10.2 Investor Due Diligence *236*
10.3 Definitive Agreements *238*
10.4 Investor Protection Rights in Category I and II AIFs *240*
10.5 Regulation on Governance Structure in AIF *250*
10.6 Role of Human Capital in avoiding Conflict of Interests *261*
10.7 Co-investments in AIFs *264*
10.8 Code of Conduct of Investment Managers of AIFs and Investment Committee *265*
10.9 Industry Best Practices *267*

PAGE

CHAPTER 11
VALUATION

11.1 Introduction *271*
11.2 Valuation Basics for Fixed Income Instruments *272*
11.3 Approaches to Equity Valuation *274*
11.4 Approaches to Business Valuation *274*
11.5 Asset based Valuation *276*
11.6 Discounted Cash Flow (DCF) Valuation *279*
11.7 Relative or Multiple based Valuation *284*
11.8 Valuation of AIF Portfolio Investments (Investee Companies) *287*
11.9 General Approach to Fund Valuation *294*
11.10 Net Asset Value (NAV) *295*
11.11 Valuation Regulations *295*
11.12 Role of third-party Registered Valuers *296*

CHAPTER 12
FUND MONITORING, REPORTING AND EXIT

12.1 Monitoring Alternative Investment Fund Progress and Performance *301*
12.2 Regulatory Framework for Fund Monitoring and Reporting *303*
12.3 Fund Reporting *312*
12.4 Exit Options *314*
12.5 Secondary Exits (Secondaries) *319*
12.6 Winding Up of an AIF *319*
12.7 Liquidation Scheme *321*
12.8 Dissolution Period *325*

PAGE

SECTION D
TAXATION AND REGULATORY FRAMEWORK

CHAPTER 13
TAXATION

13.1 Taxation of Category I and Category II AIFs *331*
13.2 Set off and carry forward of loss under the ITA *355*
13.3 GAAR *356*
13.4 MLI *357*
13.5 Other applicable taxes *358*
13.6 Examples *359*

CHAPTER 14
REGULATORY FRAMEWORK

A. SEBI (Alternative Investment Funds) Regulations, 2012 *365*
14.1 Registration Process and Eligibility Criteria *366*
14.2 Sponsor / Manager Commitment *374*
14.3 Concept of Open-ended and Close-ended Funds *374*
14.4 Accredited Investor Framework *376*
14.5 First Close, Final Close and Tenure of Funds / Schemes *381*
14.6 Investors' subscription to the Fund/Scheme *383*
14.7 Dematerialization of AIF Units *383*
14.8 Raising Corpus Capital *385*
14.9 Investment Conditions applicable to AIFs *387*
14.10 General Obligations and Responsibilities of AIFs *406*
14.11 Inspection *409*
14.12 Code of Conduct for AIFs *410*

PAGE

14.13 Market Surveillance by AIFs *411*
14.14 Exemption from enforcement of the regulations in special cases *412*
14.15 Periodic Disclosures and Reporting *412*
14.16 Specific due diligence of investors and investments of AIFs *413*
B. Foreign Exchange Management Act, 1999 *417*
14.17 FDI and its Economic Significance *418*
14.18 Investment Framework under FEMA *419*
14.19 Inbound Foreign Investment Routes *422*
14.20 Foreign Investments in AIFs *423*
14.21 Overseas Investments by AIFs *427*
C. Prevention of Anti-Money Laundering Act, 2002 *428*
14.22 Regulatory Oversight *429*
D. Other related SEBI Regulations *433*
14.23 SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 *433*
14.24 Foreign Account Tax Compliance Act and Common Reporting Standard *435*
GLOSSARY *439*