

Report on AIF [PT-1]

September 13, 2023

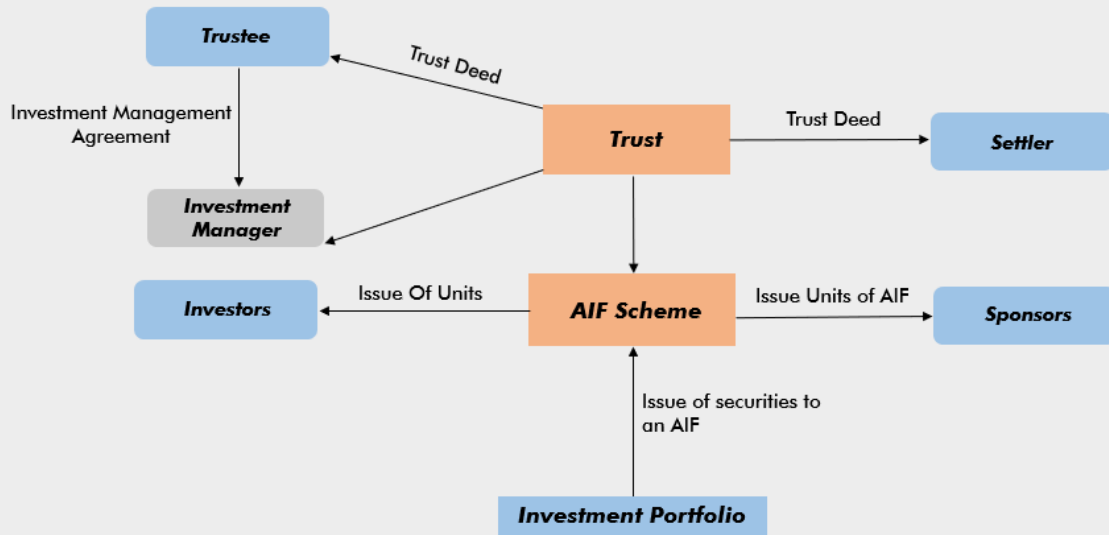
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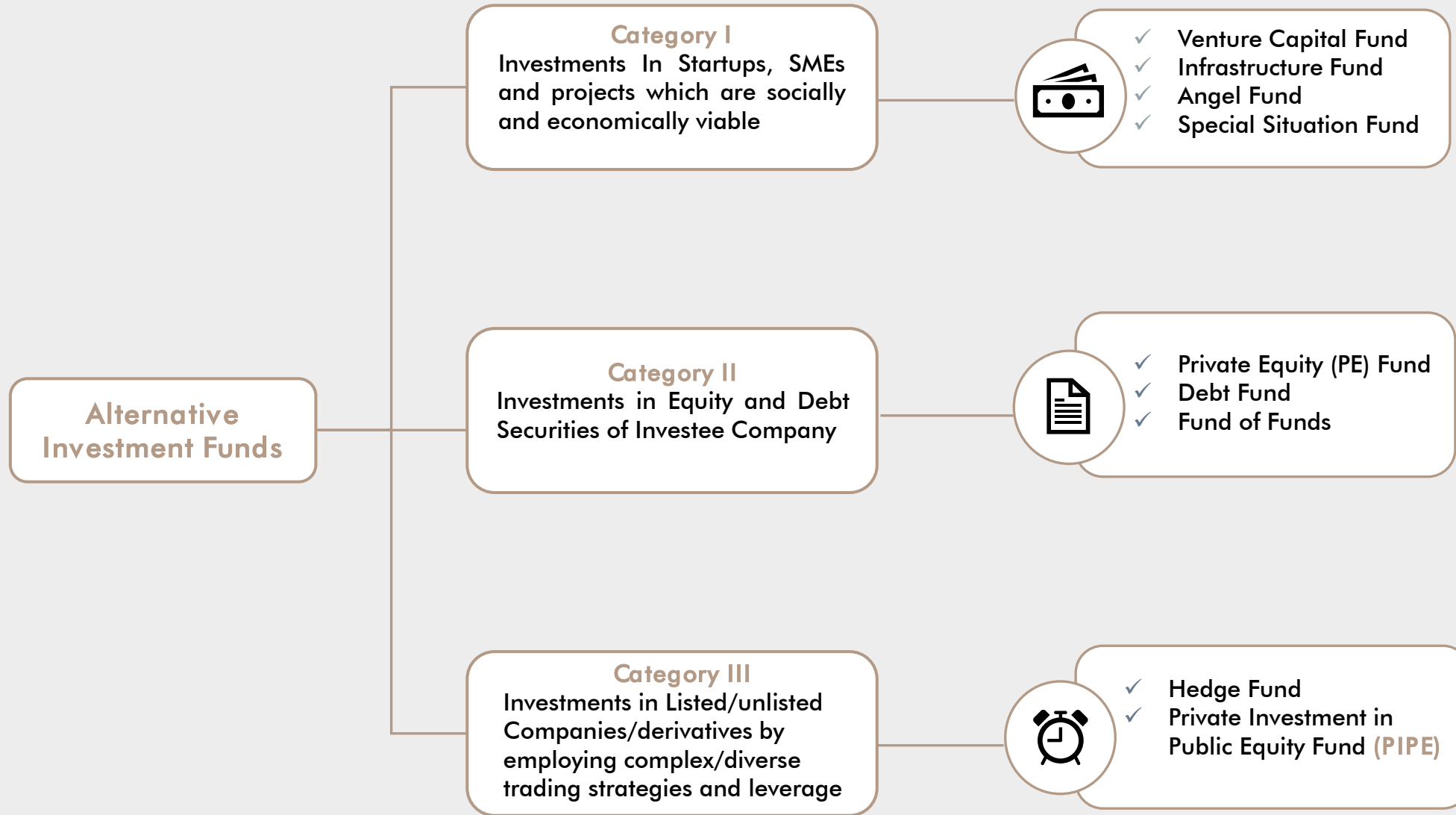
Alternative Investment Funds (AIFs) are privately pooled investment funds that may structured as trusts, companies, body corporate, or Limited Liability Partnerships (LLPs). AIFs are regulated under SEBI (AIF) Regulations, 2012. AIFs are available to select investors based on their net worth (Whether Indian or Foreign Investors). According to SEBI, there are more than 1148 registered AIFs in India as of July 2023.

Parties to AIF and their roles



- ✓ Sponsor - Plays a vital role by way of investing the initial corpus in an AIF and sets up the AIF
✓ Trustee - Responsible for overseeing the process, ensuring compliance with extant regulatory framework (where the AIF is setup as Trust)
✓ Investment Manager - Responsible for making investment decisions for funds pooled from investors
✓ Investors - Invests and holds beneficial interest in the AIF
✓ Settler - The settler is responsible for establishing the trust

Types Of AIFs in India



SOURCE : SEBI

Category I

- ✓ **Venture Capital Funds (VCF):** The fund invests money in **promising entrepreneurial businesses** that need large amounts of capital.
- ✓ **Infrastructure fund:** These investments are made in companies that specialize in operating, holding or developing infrastructure projects, such as **constructing airports, railroads, and other similar projects.**
- ✓ **Angel funds:** This investment focuses on supporting **new-age start-ups.** Each investor in the angel fund contributes a minimum of **Rs 25 lakh.**
- ✓ **Special Situation Fund:** The fund invests in **special situation assets** and may act as **resolution applicant** under the **Insolvency and Bankruptcy Code, 2016.**

Category II

- ✓ **Private equity fund:** Private equity funds primarily invest in **unlisted businesses that face difficulties raising capital by issuing debt and equity instruments.**
- ✓ **Debt funds:** The funds primarily invest in **debt securities of unlisted companies with strong governance and growth potential.**
- ✓ **Funds of funds:** In the context of AIFs, a **Fund of Fund** is an AIF that invests in **another AIF.**

Note :-

The funds which are not included in Category I and Category III are included in Category II AIF

Category III

- ✓ **Hedge funds:** The AIF collect money from investors and corporations to invest in **equity debt or derivative markets by employing diverse or complex trading strategies.** These schemes follow an **aggressive investment strategy** to provide a higher return to their investors.
- ✓ **Private Investment in Public Equity Fund (PEF):** These funds invest in **publicly traded companies** by purchasing **their shares at discounted prices.**

Note :- A new Registration category called as Specified AIF has been added

Who can invest in Alternate Investment Fund

In general, the categories of investors that can invest in AIFs are not limited to the following.

- 1** **Qualified Institutional Buyers (QIBs):** QIBs are experienced institutional investors with the financial means to invest in AIFs. Examples include banks, mutual funds, insurance companies, and foreign portfolio investors.
- 2** **High Net Worth Individuals (HNIs):** HNIs can invest in AIFs either individually or through a family trust or similar investment vehicle.
- 3** **Family Offices:** Family offices, which manage the wealth of high-net-worth families, have the ability to invest in AIFs on behalf of their clients.
- 4** **Employees and Directors of the AIF/Investment Manager:** The employees and directors of the AIF/Investment Manager have the option to invest in the fund.

SOURCE : Beacon Research

Application and registration fee for an AIF

Sr No	Particulars	Fees Amount
1	Application Fee	Rs. 1,00,000/-
2	Registration fee for Category I AIF (except Angel Funds)	Rs. 5,00,000/-
3	Registration Fee for Category II AIF (except Angel Funds)	Rs. 10,00,000/-
4	Registration Fee for Category III AIF (except Angel Funds)	Rs. 15,00,000/-
5	Scheme for AIF other than Angel Funds	Rs. 1,00,000/-
6	Re-registration Fees	Rs. 1,00,000/-
7	Registration Fee for Angel Funds	Rs. 2,00,000/-

SOURCE : SEBI

Investing Criteria For an AIF

1 Investors can be Indian, NRI or foreign. However, for angel funds, Investors should be angel investors only.

2 Every investor in an Alternative Investment Fund (AIF) is required to commit a minimum investment of Rs. 1 crore (Rs. 25 lakhs for Angel Funds).

3 Employees/Directors of AIF/Investment Manager is required to commit a *minimum* investment of Rs. 25 lakhs

4 The Manager & Sponsor shall have *continuing interest* in the AIF : Category II AIF: Minimum **2.5%** of corpus or **5 crores, whichever is lower**
Category III AIF: Minimum **5%** of corpus or **10 crores, whichever is lower**

5 Category I and II AIF Funds are close-ended. There is a minimum lock-in period of 3 years (maximum 5 years for Angel Fund) Category III can be open-ended.

6 Each scheme is limited to a maximum of 1000 investors, except for Angel funds which can have up to 200 investors

SOURCE : SEBI

AIFs Vs Other Managed Funds

Parameter	AIFs	PMS	Mutual Funds
Regulation	SEBI (Alternative Investment funds) Regulations, 2012	SEBI (Portfolio Managers) Regulations, 2020	SEBI (Mutual Funds) Regulations, 1996
Number of investors	The maximum limit for the number of investors should not exceed 1,000.	There is no cap on the number of investors	There is no cap on the number of investors
Transparency (From Investor and Regulatory point)	High	High	High
Risks	High	Moderate to high	Low to High
Minimum Investment	Alternative Investment Funds in India generally require a minimum investment of Rs. 1 crore, while angel funds have a requirement of about 25 lakhs	The minimum investment size is Rs. 50 lakhs	Investors have the option to begin investing in mutual funds with as little as Rs. 100
Investor Category	HUF , QIB, HNIs , Corporate etc.	HUF , HNIs , Institutions	Anyone can invest in mutual funds, regardless of their investor profile.
Liquidity	Low	Moderate	High

SOURCE : Beacon Research