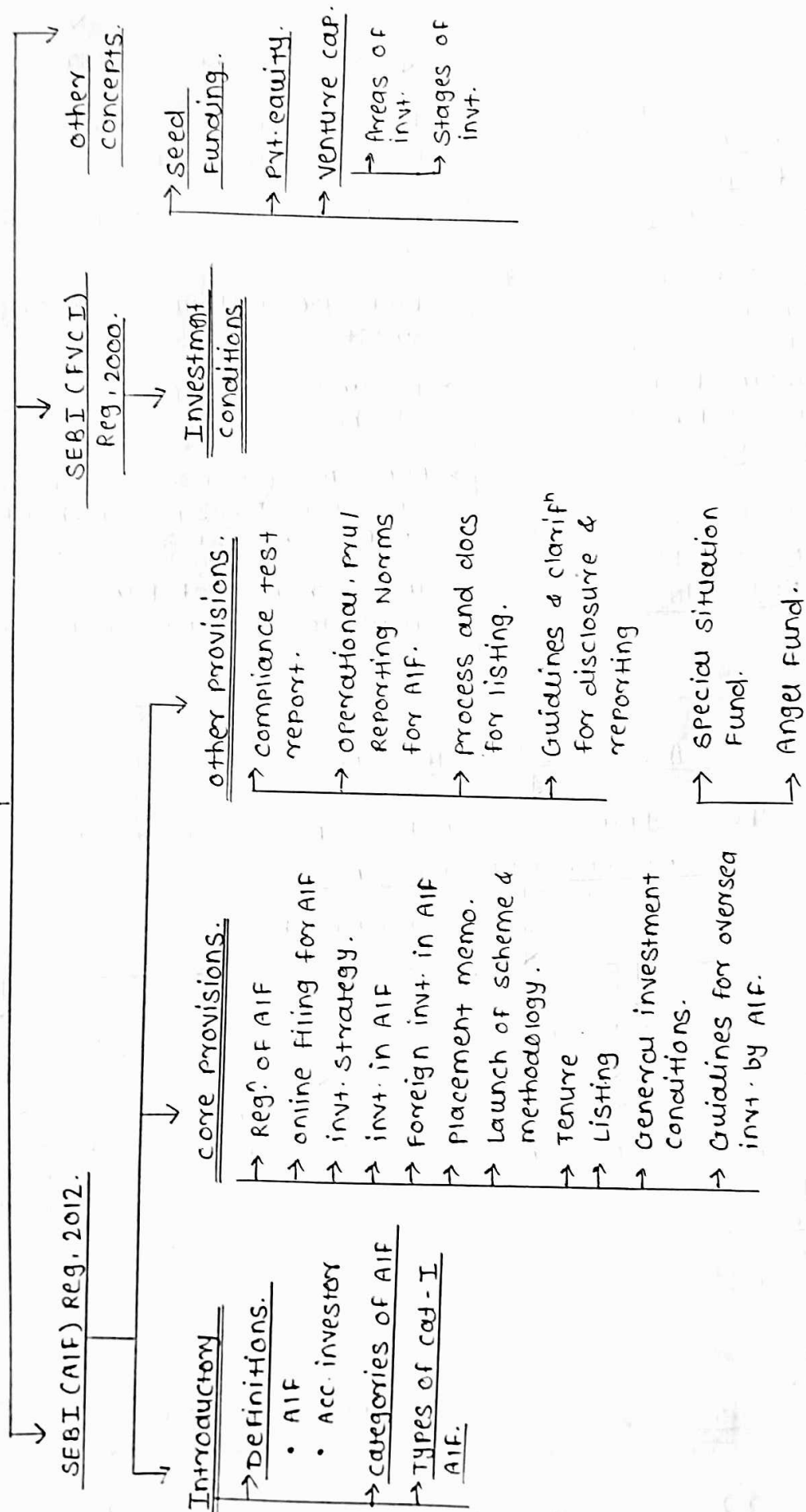


synopsis.



Definitions - Alternative Investment Fund (AIF)

Meaning.

- Any Fund established or incorporated in India in the Form of trust or a co. or a LLP or body c.
- It is a privately Pooled invt. vehicle which collects Funds from investors with Indian or Foreign, for investing as per defined investment policy.
- Not covered under :
SEBI (MF) Reguⁿ 1996
SEBI (CIS) Reguⁿ 1999

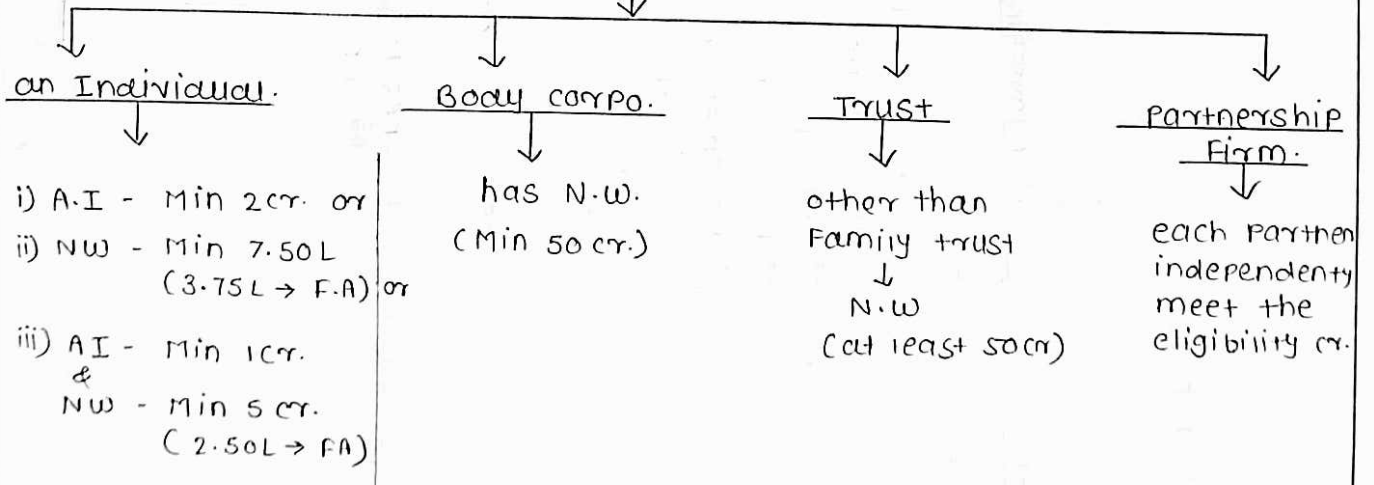
↓ shall not be considered → AIF

- Family trust as defined under Companies Act 2013.
- ESOP trust - SEBI (Sh. based ee reg.)
- Employee welfare trust or gratuity trust
- Holding companies - section 2(46) of the companies Act 2013
- Fund managed by securitisation or reconstⁿ co. Reg. with RBI. under SARFAESI Act 2002
- any such Pool of Fund directly regulated by any other regulator

Accredited Investor.

↓
person who is granted a certification of accreditation
by Accreditation Agency

↓
who in case of



⇒ Deemed Accredited Investors.
↓
(No certifi. is req.)

→ CG. SG. development agencies under CG/ISG @IB, cat I Foreign Portfolio investors, sover weath Fund, Multilateral agencies, any other entity specified by board.

categories of AIFs

Category	Explanation.
<p><u>category I AIF.</u></p>	<ul style="list-style-type: none"> → Invest in to investee co, special purpose vehicle venture capital undertaking, LLP, cat I AIF (same sub cat.) AIF II category. which is → <li style="text-align: center;">↓ → Start up, early stage venture, social venture SMEs or any other area which Govt / Reg. considered as socially / economically desired → May engage in hedging incl. credit default swap in terms of the conditions as specified by SEBI → shall not borrow funds directly or indirectly or engage in any <u>leverage</u> except - <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;"> <p>↓</p> <p><u>Funding Req.</u> - 30 days (max)</p> <p><u>yearly</u> - 4 occⁿ</p> <p><u>Inv. Funds</u> - 10%</p> </div> <div style="text-align: center;"> <p>↓</p> <p>Can borrow for the purpose of <u>meeting shortfall in drawdown amount.</u> sub. to condⁿ</p> <p>[Refer P.g. No - 3] ←</p> </div> </div>
<p><u>category II AIF</u></p> <p>2 Additional conditⁿ</p> <ul style="list-style-type: none"> → Agree with MB → Exempⁿ under insider trading. <p>[Refer P.g. 4] last condⁿ b) & c)</p>	<ul style="list-style-type: none"> → Not fall in category I & III and which does <u>not undertake leverage</u> - Except - <u>Fund. req. 30 days (max), 4 occ in a yr, inv. Fund - 10% and borrowing - shortfall in drawdown amt</u> → Invest in to <u>investee co, cat I AIF, cat II AIF</u> may <u>disc. in placement memo.</u> → <u>may engage in hedging, sub. to SEBI guidelines</u> → <u>may buy or sell credit default swap</u> in terms of condition sp. by SEBI.
<p><u>category III AIF</u></p>	<ul style="list-style-type: none"> → Employ diverse or complex trading strategies may [<u>employ leverage</u>] → <u>consent - invt. SEBI-limit</u> → invest in to listed / unlisted securities of investee co., other AIF (units), derivatives → Buy or sell credit default swap [for speculⁿ purpose] → Invest in goods received against physical settlement of commodity derivative.

→ category I & II AIFs can not borrow funds except for meeting temp. funding requirement and day to day operational req. (30D, 4, 10%)
and

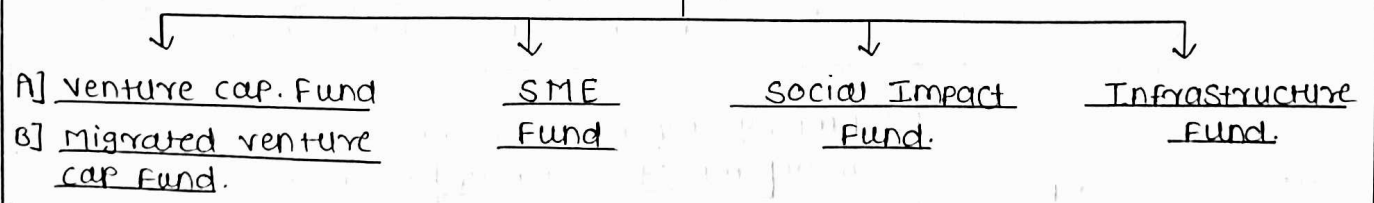
For the purpose of meeting shortfall in drawdown amt. subject to following conditions.

- This borrowing shall be disclosed in private Placement memorandum.
- Borrowing shall be done only in case of
 - only in case of emergency and as a last recourse
 - Investment opportunity is about to be closed.
 - Despite best efforts by the manager, investor failed to provide draw down amount before the investment date.
- The cost of such borrowing shall be charged only to investors who failed to provide the drawdown amount for making investments.
- Cooling period between two periods of borrowing is 30 days.
- Limit on Borrowing by cat I / cat II [sh fail draw down.
 - 20% of invt. to be made in investee co.
 - 10% of investable funds
 - commitment pending from investor

↓

whichever is lower. → max amt. can be borrowed.

Sub-categories of AIF (cat. I)

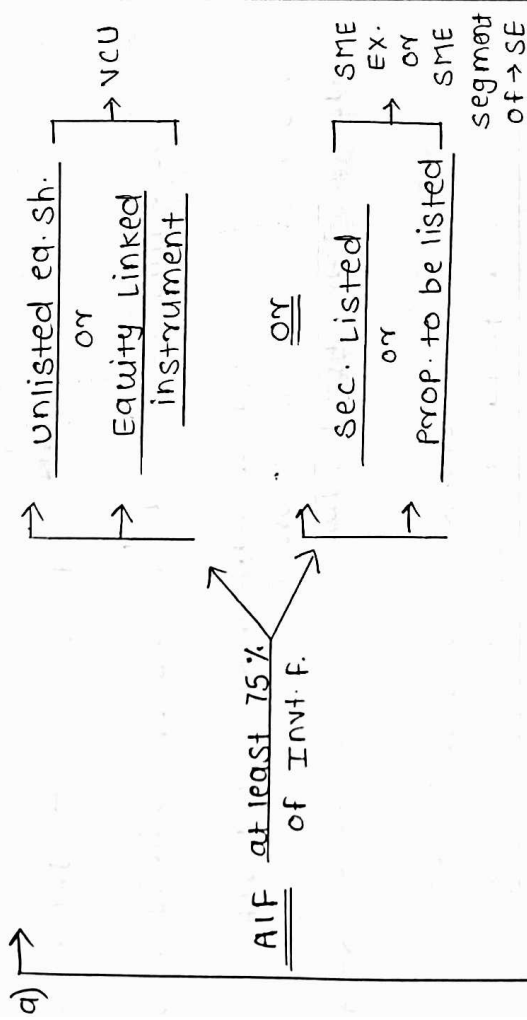


* Migrated venture Capital Fund. → • Migrated vcf means a Fund that was previously reg. as a vcf under the SEBI (vcf) Reg. 1996 and subseq. reg. under these requir as a sub category of vcf under cat - I - AIF.

[Recent Addition]

Conditions for Cat I AIFs

In case the AIF is a venture capity fund.



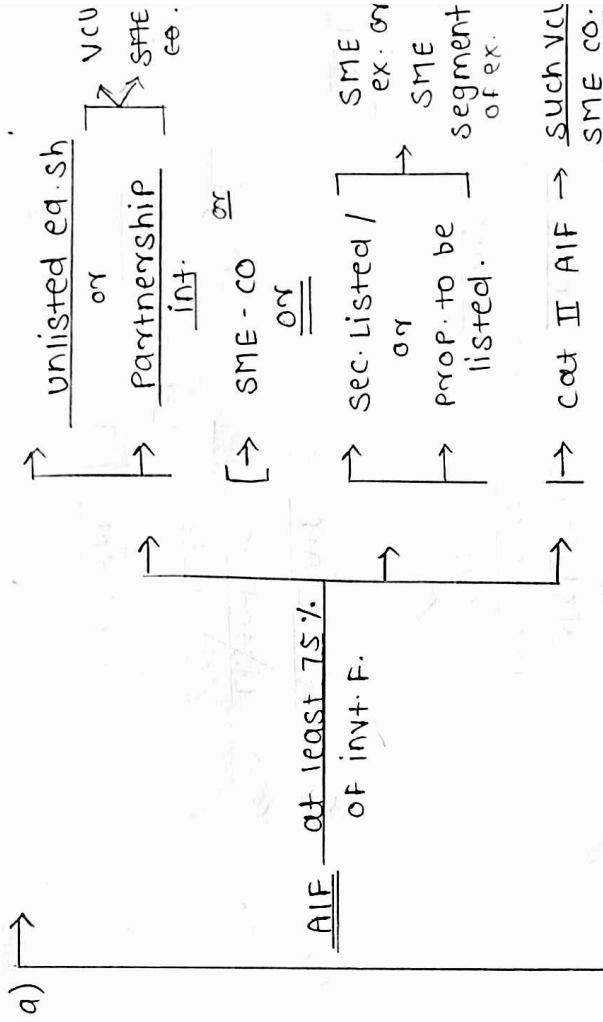
- b) → Enter in to an agreement with Merchant banker under SEBI (ICDR) Reg. 2018. to act as underwriter or market maker.
- c) → Funds investing in co. listed on the SME ex. or SME segment of an ex. after due diligence are exempt from SEBI (prohibition of insider trading) Reg. 2015

↓

→ Disclose the trade - 2 Tr. days → SE

→ Lock in the investment for 1 year.

In case the fund is an SME Fund.



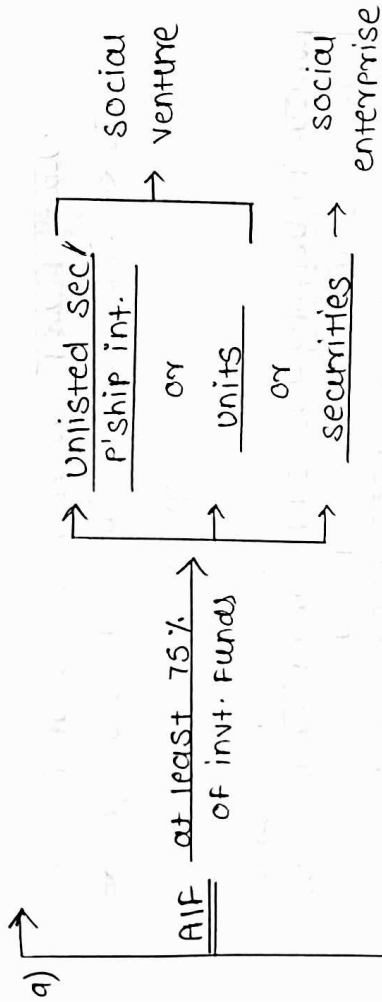
- b) → Enter in to an agreement with MB under SEBI (ICDR) Reg. 2018. to act as a underwriter or market maker.
- c) → Funds investing in co. listed on SME ex. or SME segment after due diligence are exempt from SEBI (prohibition of insider trading) Reg. 2015.

↓

→ Disclose the trade - 2 Trading days → SE

→ Lock in invt - 1 yr.

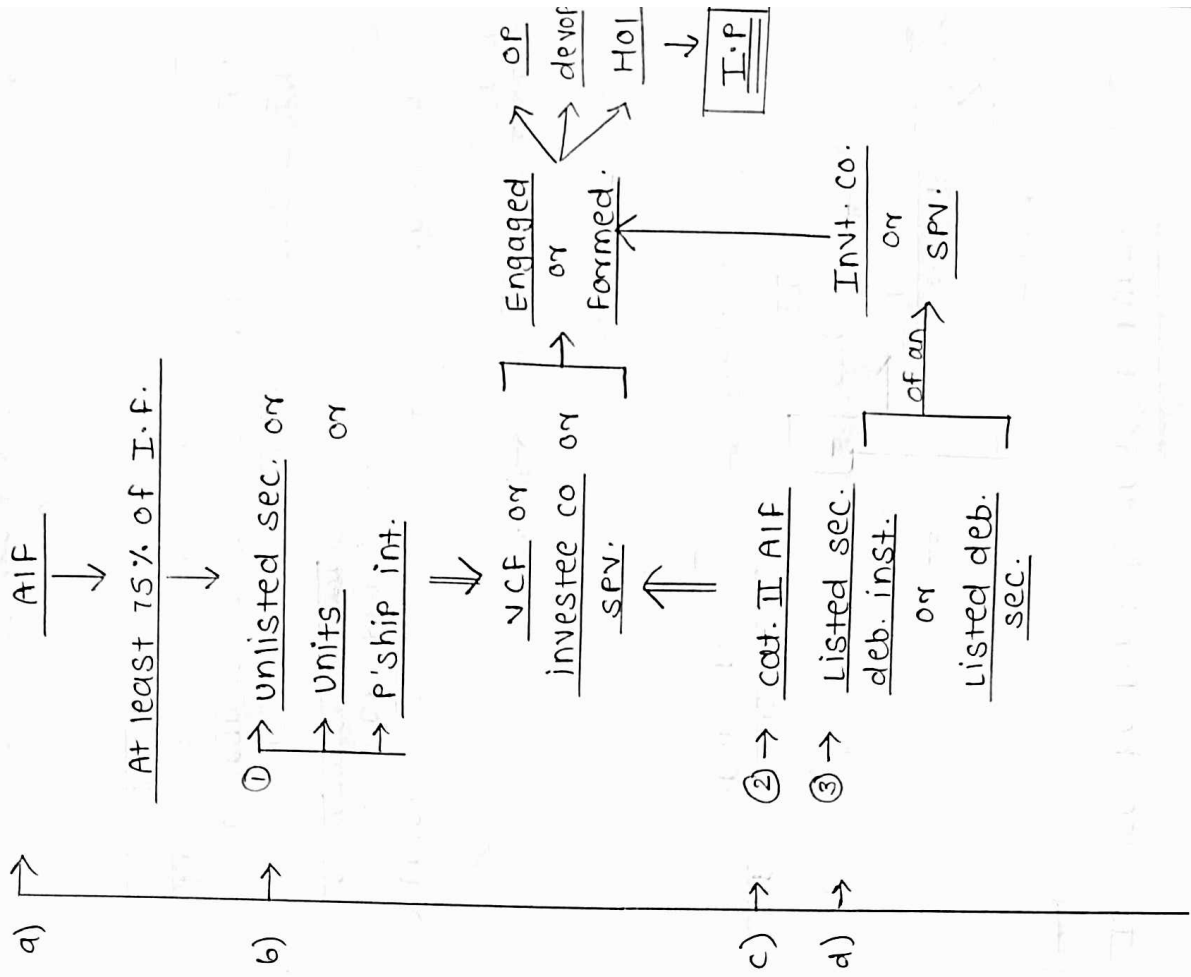
In case the fund is Social Impact Fund.



However existing social impact fund can invest its remaining investable funds in sec. of NPO listed on social stock exchange but only with the consent of at least 75% of its investor in value.

- b) → Allowed to accept grant [Min - 10 L - except for accr. investor] No Profit will accrue to the person providing grant.
- c) → Allowed to give grant [with full disclosure]
- d) → AIF 100% of I.F → NPO → listed on SSE

In case the fund is an Infrastructure Fund.



⇒ Registration of AIFs. - Reg. 3

- All AIFs are required to be mandatorily reg. with SEBI.
- An entity who fails to make an application (Reg.) within a specified period, shall cease to carry on any activity as an AIF.
- An AIF which has granted reg. under a particular category can not change its category except with the approval of SEBI.

⇒ online Filing System for AIF.

- SEBI has introduced an online system for filings related → AIF
- ↓
- Used for application for regⁿ, reporting, filings
- ↓
- through
- ↓
- siportal.sebi.gov.in.

⇒

Investment Strategy. - Reg-9

All AIF must state its invt. strategy in placement memo

IF the AIF decides to alter the fund strategy, it shall be made only with consent of at least 2/3rd of the unit holders of value of their investment in AIF.

⇒ Investment in AIFs - Reg-10.

- AIF may raise funds only by way of issue of units.
- Min corpus - 20 cr., Min investment - 1 cr. (per investor), SIF = 5 cr
- In case investors are dir/ee of the AIF Fund.
Min corpus - 25 investment = 25 L.,
- Manager / sponsor - continuing int → 2.5% of corpus or 5 cr ↓
For cat III AIF → 5% of corpus or 10 cr ↓
- Max. no. of investors - 1000., investor can be indian or Foreign
- AIF shall collect fund only by way of private placement
- In case corpus of an open ended scheme falls below 20 cr.
 - intimate SEBI (w 2 days) of receiving req. of redemption.
 - bring back in limit (in 3 months)
 - if fails redeem entire unit
 - Repeated violⁿ → SEBI may take action

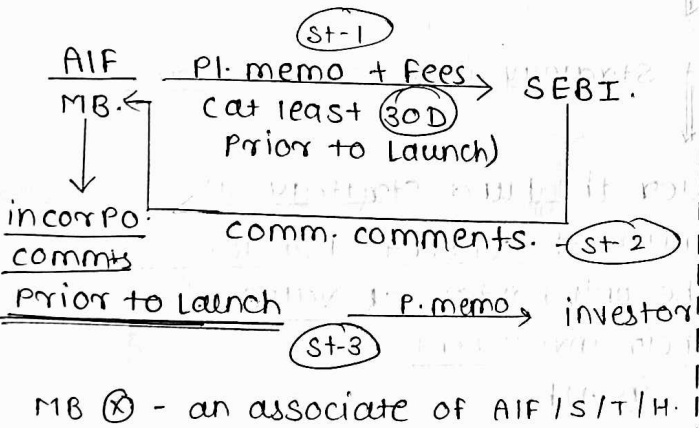
Placement memorandum - Reg - 11

• AIF shall raise funds thr. Private Placement by issue of Placement memorandum

contains

- mat info about AIF, manager
- Targeted investors
- fees, other exp.
- tenure of the AIF / scheme
- Investment strategy
- condition or limits on redemption.

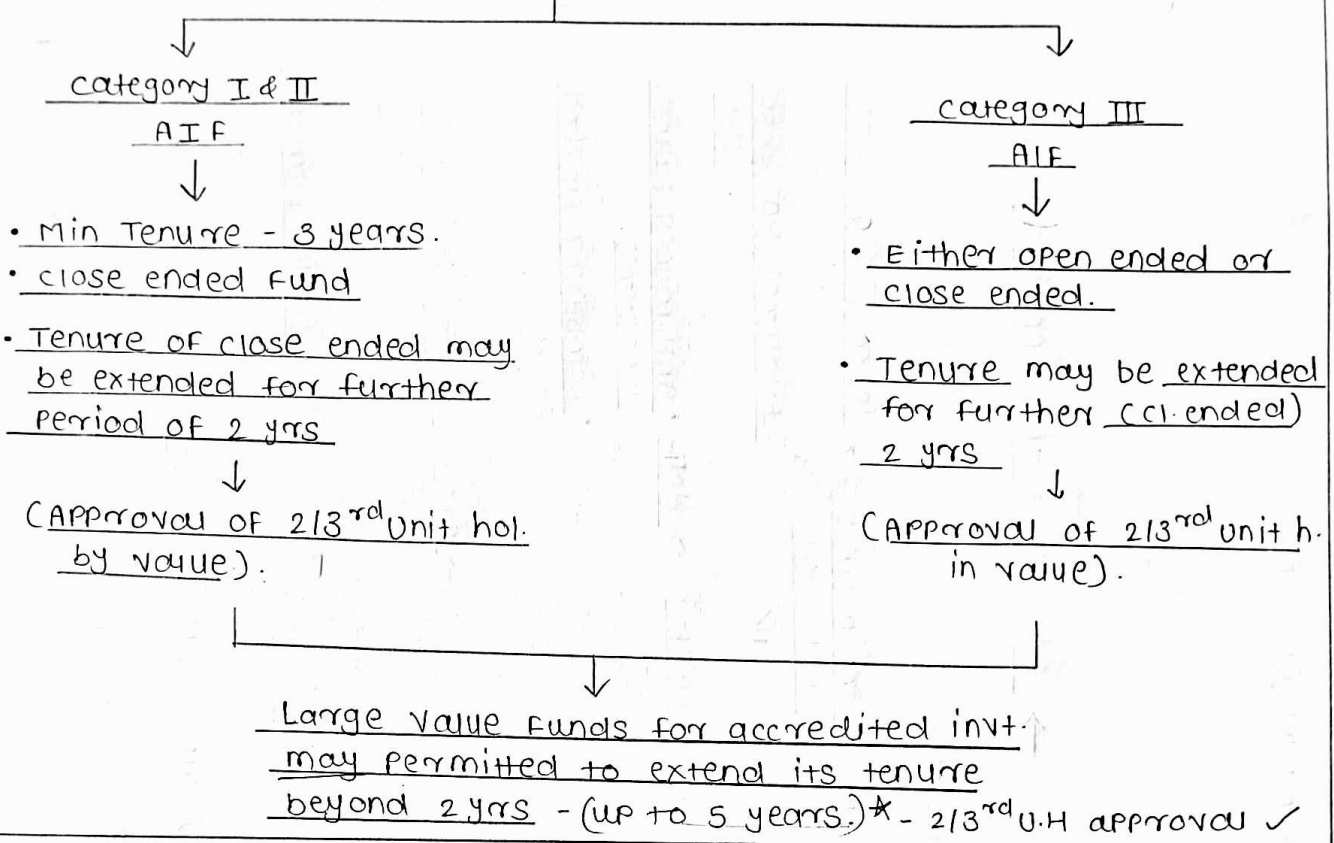
Schemes. - Reg - 12



Modalities for filing PI-memo. through a Merchant B.

- MB shall independently exercise due diligence of all disclosures in PI-memo.
- while filing draft PI-memo. on the SEBI portal, the DDC provided by MB shall also be submitted.
- The ~~institute~~ details of MB shall also be disclosed.
- AIF req. to intimate SEBI regarding any changes in terms of PI-memo (w-1m)
- MB shall not be an associate of AIF, its sponsor, manager or trustee.

Tenure - Regⁿ - 13



⇒ General Investment conditions - Reg. 15

- AIFs may invest in equity and equity linked instruments of off shore venture cap undertakings up to USD 1500 million. (combined limit of AIFs & VCF).
- co-investment terms of managers, sponsors or co-investor must not be better than those for the AIF.
- cat I & II AIFs can invest up to 25% of their investable funds in an investee co. However Large Value Fund for accredited investors in these cat. can invest up to 50%.
- cat III AIF can invest up to 10% of the investable funds in an investee co. However Large value F. for acc. invt can invest - 20%^{max} [for listed equity invt cat III AIF may apply 10% / 20% limit based on either investable fund or NAV]
- AIFs allowed to invest in other AIFs cannot accept investment from other AIF
- AIF can invest in associates or units of AIF managed / sponsor or associate of its mem only with the app. of 75% of investors by value.
- AIF can invest unutilized funds in liquid assets like T-bills, CP, bank deposit till deployment or payout to investors.

→ Listing - Reg-14. - units of close ended AIF may be listed on SE sub. to min tradable lot of 1 crore rupees.

Foreign invt in AIF and overseas invt by AIF (iii & iv)

Investor / underly (25%) / control
invt



Not be in the sanction list of UNSC.

Jurisdin

sec. market regulator. → IOSCO MMDU sign ✓
or
Bilateral MDD - SEBI sign ✓



Jurisdin

iii) sec. market regulator. → IOSCO M.M.O.U sign ✓
or
Bilateral MOU - SEBI sign ✓

→ RBI limit and approval.

iv) FATF identify

def. → Anti money laund. measures
• combating Fin for terr.

def. → Anti money laund. measures
• combating Fin. for terr.

Progress → Addressing the deficiencies.

OR

Progress - Addressing the deficiencies.

Committed → Action Plan by FATF.

OR

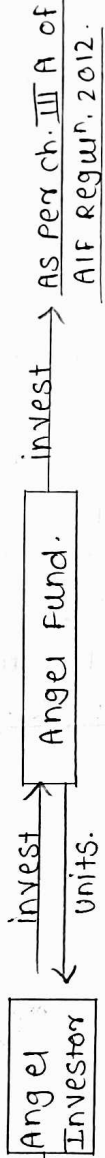
Committed - Action plan by FATF

i) AIF - APP → SEBI (allocⁿ of oversea invt limit)

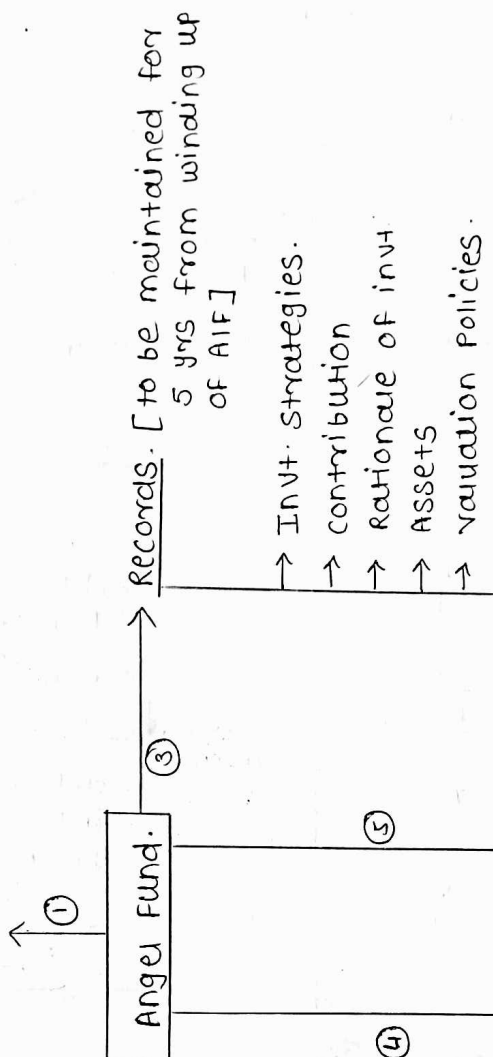
ii) oversea invt ee co. have an indian connⁿ

ANGEL FUND

- Individu. - Min NTA 2 cr. (ex. principal resident)
- and
- exp. of early st. investment
- serv. enterp. or
- Prof. experi. - 10 yr.
- S. corpo. - Min NW - 10 cr.
- AIF. VCF

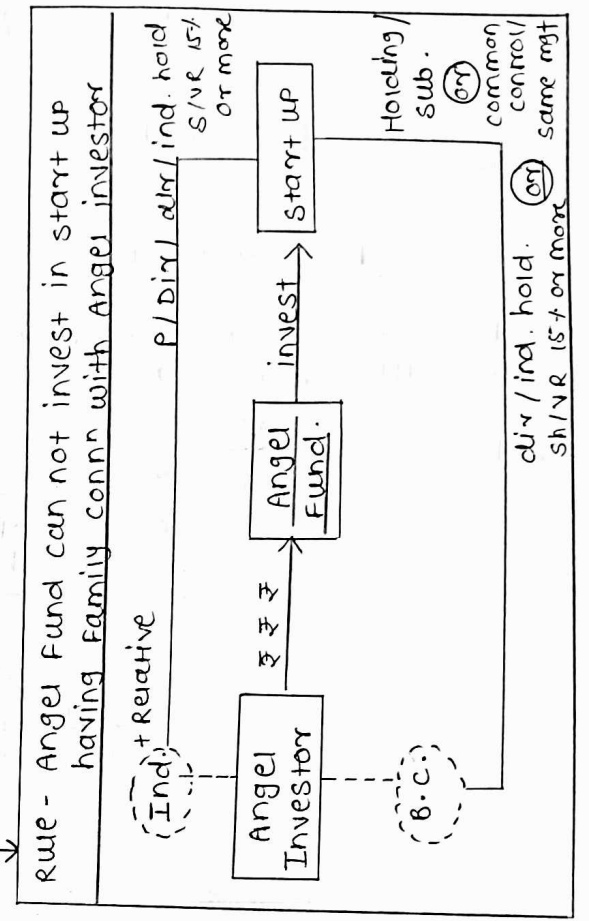


	A.F.	AIF
Min corpus	5 cr.	20 cr.
Min invt.	25 L	1 cr.
Max investor	200	1000.
cont. int. of Manager / SF.	2.5% or 50 L ↓	2.5% or 5 cr ↓



→ Investment by Angel Fund -

- AF shall invest only in startups not promoted or related to industrial grp with TTD exceeding ₹ 300 crore.
- Inv. by an A.F in any VCU shall not be less than 25 L and shall not exceed ₹ 10 cr
- Inv. by AF in VCU - Lock in - 1 year.
- shall not invest in associates.
- shall not invest more than 25% of the total invt under au its scheme in 1 VCU
- An Angel Fund may invest in foreign co. securities sub to RBI and SEBI guidelines

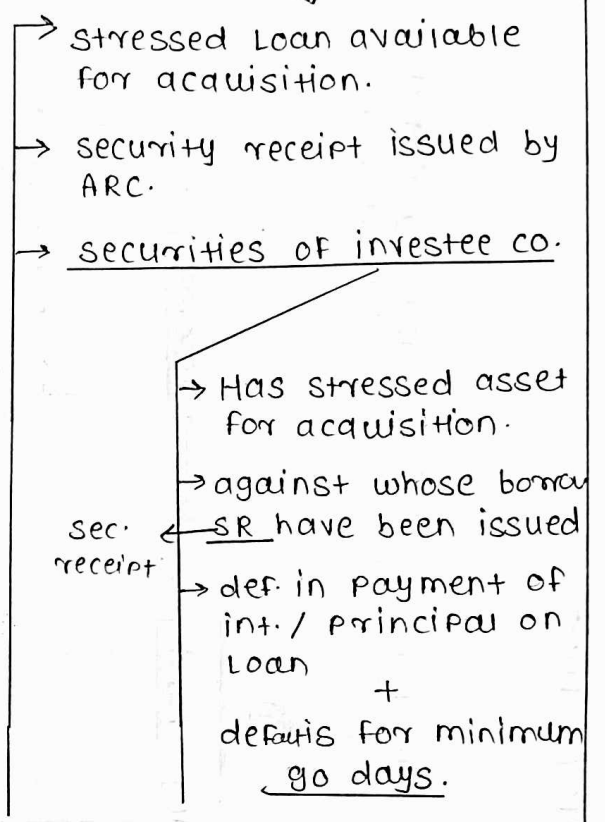
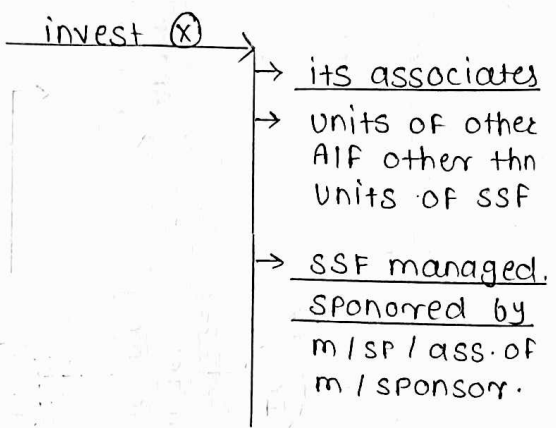


Special Situation Fund.

Special Situation Fund. — invest. —> Special Situation Assets.

Investment in

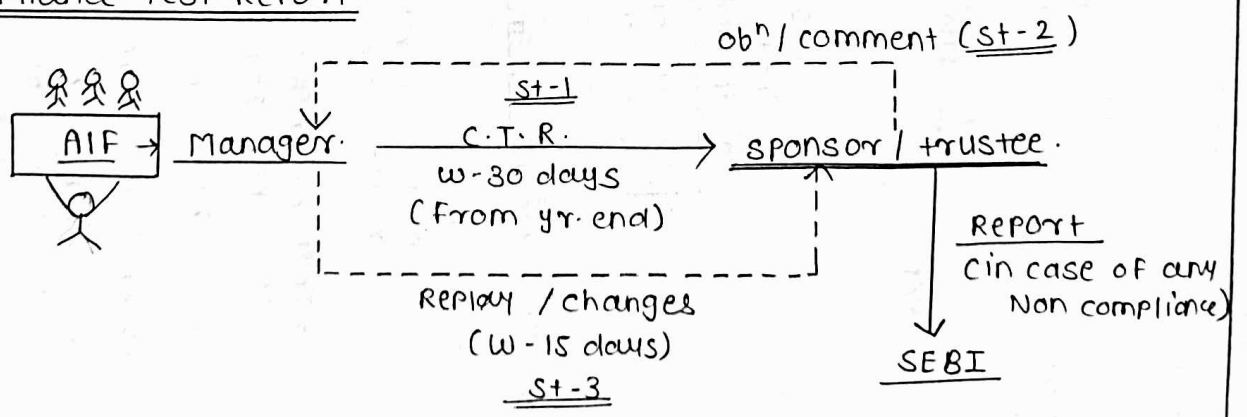
- SSF can not accept invt. from any other AIF other than SSF
- SSF



Limits of special sit. fund

Min corpus - 100 cr.
 Min invt - 10 cr (scr/25L)
 for acc. invt. ee/din of SSE

⇒ compliance Test Report.



⇒ Operational, Prudential & Reporting Norms for AIF.

⇒ Operational Norms

cat - III AIF
(which undertake lev.)

- Risk management framework.
↓
supported by ind. risk mgt function
- strong / independent compliance funⁿ

⇒ Reporting Norms

Report to SEBI
cat I, II, III (No Leverage)
cat III (with Leverage)

- submit report quarterly
- submit report monthly

⇒ Operational Norms.

cat III open ended sch.

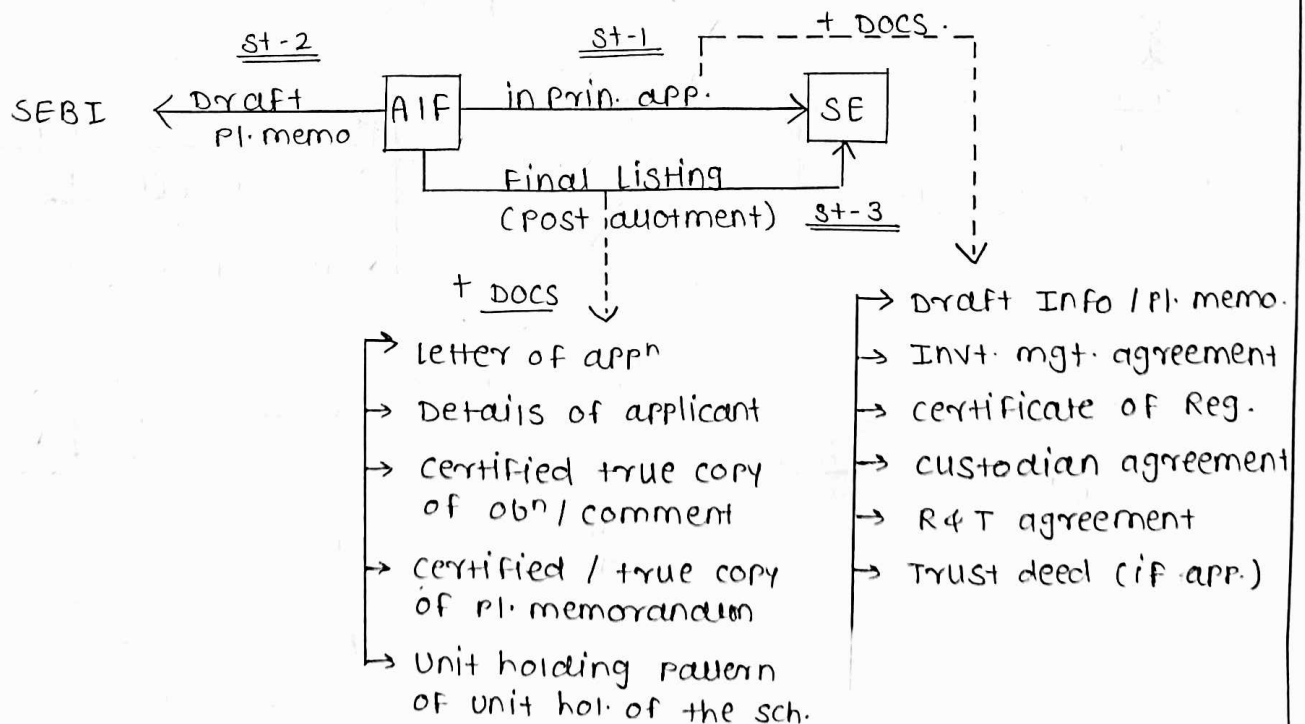
- Liquidity management policy.

⇒ Prudential Norms.

cat III (with Leverage)
$$\left[\frac{\text{Exposure [L+S]}}{\text{NAV}} \right] \text{ after off sh.}$$

- Ensure that total leverage in ratio of NAV does not exceed 2:1

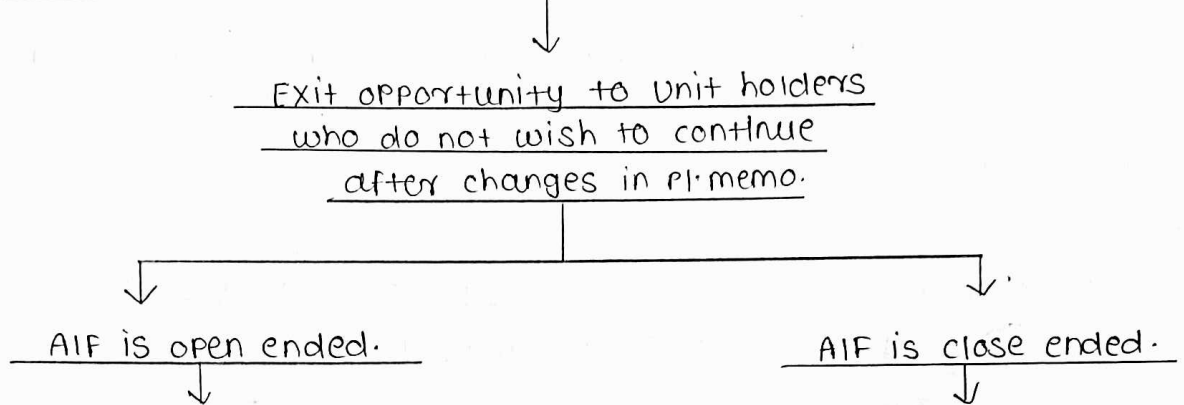
⇒ Process of Listing and Trading of Units on SE



Guidelines on Disclosures, Reporting & Clarifⁿ

→ SEBI has prescribed that category III AIF should report to the custodian the amount of leverage at the end of day.

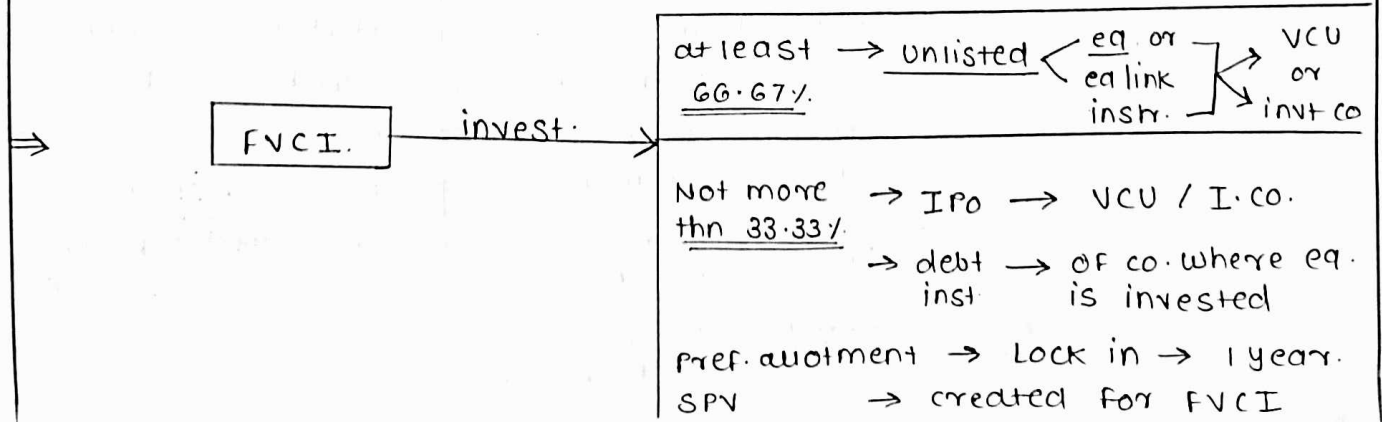
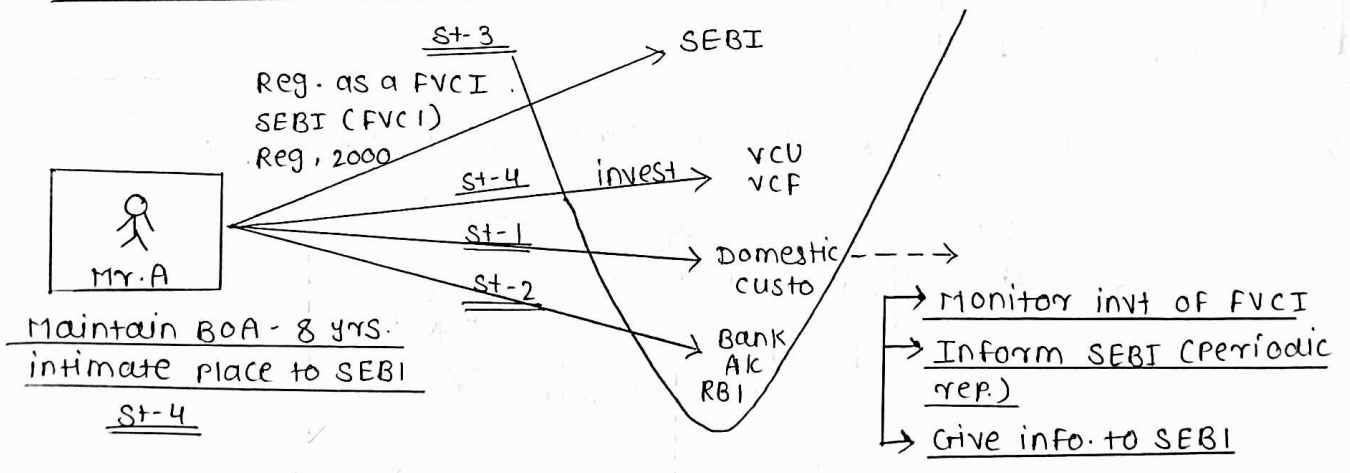
→ In case of changes to the placement memo, which significantly inf. the decision of the investor.

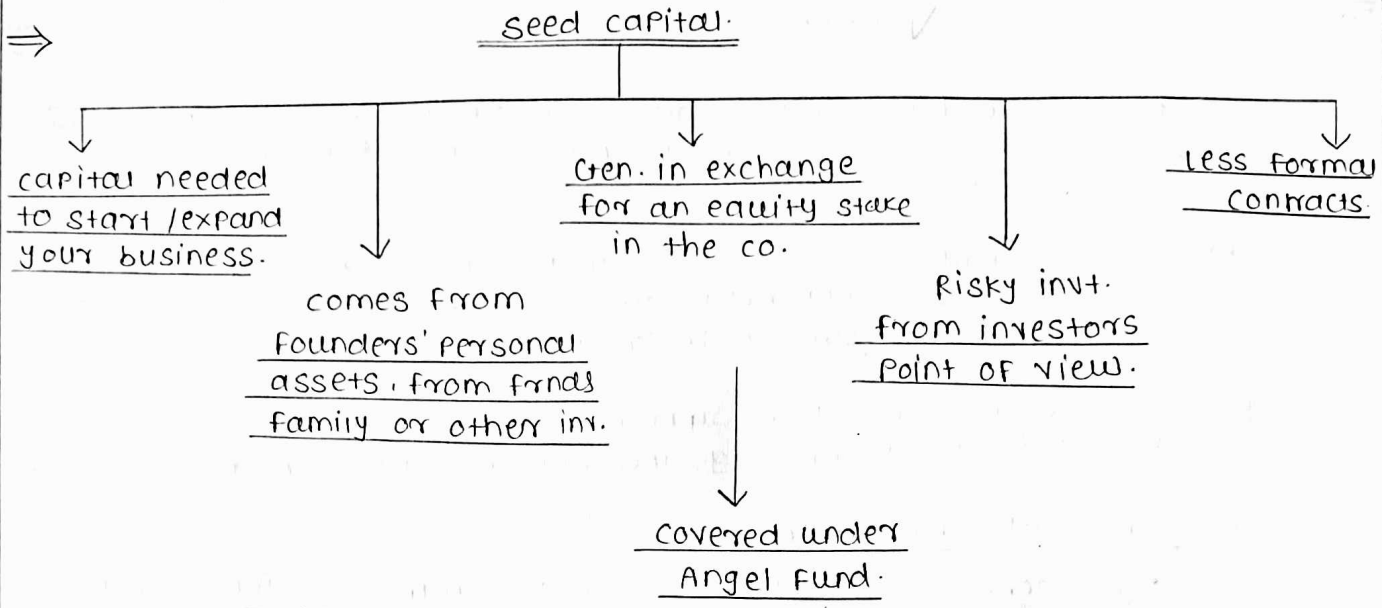


- 1] Units purchased by manager/ SPONSOR or someone arr. by the manager.
- 2] Redemption of units by AIF by selling underlying units.

- 1] units purchased by manager or someone arr. by the manager.

⇒ Foreign venture capital invt.





⇒ Private Equity.

- PE invest in illiquid assets i.e. co's not publicly traded on SE or invest in publicly traded assets to make it private.
- PE intends to get control of the business asset and revenue of the investee co. which leads to very high returns on investment
- Investors of PE are both retail and instit. investors However generally instit. investor & accredited invt. invest in PE who can commit large sum of money for long period of time.

→ Types of Private Equity.

<u>Leverage Buyout.</u>	<ul style="list-style-type: none"> • <u>PE uses debt to finance acquisition.</u> • <u>invest in mature co, revenue gen. co.</u>
<u>venture capital.</u>	<ul style="list-style-type: none"> • <u>invest in less mature co, start ups etc.</u>
<u>Growth capital.</u>	<ul style="list-style-type: none"> • invest in minority stake of co's which are <u>looking for</u> <ul style="list-style-type: none"> → growth, expansion → without change in control

⇒

Venture capital.

- Innovative financing resource. in which Promoter has to give up some level of ownership and control of business in ex. of capital for a limited period. say 3-5 years.
- VC is generally equity investments made by VCF at an early stage in privately held companies having potential to provide high rate of return on their investments.
- It is a resource for supporting innovation, knowledge based ideas, technology and human capital intensive enterprise
- Areas of Investment. :-
 - Biotechnology, medical services, communications, electronic components and software companies.
 - VC firms finance both early and later stage investments to maintain a balance betⁿ risk and profitability

→

Stages of invt. financing

- A] Early stage financing.
 - seed capital and R&D projects
 - startups
 - second round financing
- B] Later stage financing.
 - Development capital
 - Expansion finance
 - Buy outs.
 - management buyouts
 - management buy-ins.
 - Replacement capital
 - Turnaround.

* Amendment.

In specie distribution can be made in liquidation.



with 75% Unitholder's approval (in value)

Amendments :-

1. Info. memorandum to be filed to SEBI (about dissolution) : Before the expiry of Liquidation Period.
2. For in specie distribution : approval of 75% of investor is required.

3. Specific Due diligence of investors and Investments of AIFs

SFA - Standard Setting Forum by SEBI

- Investor's availing benefits designated for OIB (50% bar)
- RBI Regulated lenders / entities ever greening their stressed loans / assets through AIF. (25% bar)
- Investment from countries sharing Land borders with India through AIF (50% Bar)