# Study Notes for
# NISM-Series-XIX-C: Alternative Investment Fund Managers
# Certification Examination

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## EXAMINATION DETAILS

| | |
|---|---|
| **Multiple Choice Questions**<br>[90 questions of 1 mark each] | 90*1 = 90 |
| **Case-based Questions**<br>[6 cases (each case with 5 questions of 2 mark each)] | 6*5*2 = 60 |

| | |
|---|---|
| **Total marks** | **150** |
| **Duration** | **3 hours** |
| **Pass mark** | **90** |
| **Negative marking** | 25 percent of the marks assigned to a question. |

## WEIGHTAGE

| Chapter No. | Chapter Name | Marks Allocated |
|---|---|---|
| 1 | Investments Landscape | 2 |
| 2 | Types of Investments | |
| 3 | Concept of Informational Efficiency | 3 |
| 4 | Introduction to Modern Portfolio Theory | |
| 5 | Introduction to Capital Market Theory | |
| 6 | Alternative Investment Funds in India and its Suitability | 5 |
| 7 | Alternative Investment Funds Ecosystem | 5 |
| 8 | Alternative Investment Fund Structuring | 10 |
| 9 | Fee Structure and Fund Performance | 20 |
| 10 | Introduction to Indices and Benchmarking | 5 |
| 11 | Investment Strategies, Investment Process and Governance of Funds | 20 |
| 12 | Fund Due Diligence – Investor Perspective | 10 |
| 13 | Legal Documents and Negotiations | 10 |
| 14 | Valuation | 10 |
| 15 | Fund Monitoring, Reporting and Exit | 10 |
| 16 | Taxation | 20 |
| 17 | Regulatory Framework | 20 |
| **Total Marks** | | **150** |

# NISM-Series-XIX-C: Alternative Investment Fund Managers Certification Examination

# CHAPTER 1: INVESTMENTS LANDSCAPE

1. Investment involves committing current savings to generate higher future returns.
2. Savings is the excess of income over expenditure; investment implies a purposeful use of savings.
3. All investors are savers, but not all savers are investors.
4. Investment differs from speculation; investment relies on analysis, speculation generally on price movement prediction without full analysis.
5. Investment objectives include capital preservation, capital appreciation, regular income, and tax saving.
6. The required rate of return comprises the real risk-free rate, compensation for expected inflation, and a risk premium.
7. Real risk-free rate is compensation for deferring consumption in a no-inflation, no-uncertainty scenario.
8. Nominal risk-free rate includes expected inflation.
9. Risk premium compensates for uncertainty in future cash flows.
10. Risk in investments is measured by variability in expected vs actual returns.
11. Risk is "known uncertainty." Uncertainty is lack of enough knowledge; risk is when causal factors are understood.
12. Types of risk: business, financial, liquidity, exchange rate, political, geopolitical, regulatory, market, interest rate, country.
13. Business risk depends on operational aspects and sales/earnings volatility.
14. Financial risk arises from debt and equity mix—high leverage increases risk.
15. Liquidity risk is the risk of not converting assets to cash near their economic value.
16. Exchange rate risk occurs with investments in foreign assets.
17. Political risk includes changes due to government action or instability.
18. Geopolitical risk includes wars, terrorism, and cross-country disruptions.
19. Regulatory risk arises from changes to SEBI or other laws.
20. Market risk is the risk from broad market movements.
21. Interest rate risk affects fixed income due to value fluctuation when rates move.
22. Country risk comes from investing in foreign markets with unique macro variables.
23. There is a positive relationship between risk and expected return, but it is not linear.
24. The Indian securities market is governed by the Securities Contracts (Regulation) Act, 1956.
25. Securities are defined broadly: shares, debentures, government securities, derivatives, mutual funds, etc.
26. The securities market includes both primary and secondary markets.
27. The primary market issues new securities; the secondary market provides liquidity.
28. Market infrastructure institutions: stock exchanges, depositories, DPs, brokers, custodians, clearing corporations, merchant bankers, RTAs.
29. Investors are categorized as institutional, non-institutional, and retail.

30. Institutional investors include mutual funds, pension funds, insurance, FPIs, AIFs.
31. Non-institutional are mainly family offices, HNIs, etc.
32. Retail investors have limitations on participation amount (not over ₹2 lakh for IPO per SEBI rules).
33. Derivatives are included as securities, per SCRA and subsequent regulations.
34. Primary market is about capital raising; secondary market is about liquidity and price finding.
35. Depositories (CDSL and NSDL) hold securities in dematerialized form.
36. Custodians safeguard securities mainly for large clients.
37. Clearing corporations guarantee trades' settlement.
38. Merchant Bankers act as issue managers and underwriters.
39. Registrars & Transfer Agents maintain records and ensure benefit transfer.
40. Liquidity is ensured via active secondary market participation.
41. Investment avenues offer varying levels of liquidity, transparency, and risk.
42. Capital markets facilitate allocation of capital from surplus to deficit units.
43. Capital preservation is key for risk-averse investors; growth for risk-tolerant.
44. Immediate short-term investment objectives gravitate towards liquidity.
45. Required rate of return is a minimum expectation, not a guarantee.
46. Investors must analyze their risk appetite and investment horizon.
47. Securities offer investors an avenue to convert surplus funds into financial assets.
48. Ownership rights in shares, fixed claim in bonds, managed security in mutual funds.
49. Issuers design offerings as per regulatory guidelines.
50. Investment decisions should balance expected returns with personal financial goals.

# CHAPTER 2: TYPES OF INVESTMENTS

1. Traditional investments: public equities, listed debt, mutual funds, ETFs.
2. Alternative investments: private equity, venture capital, hedge funds, real estate, commodities, art, collectibles.
3. Traditional investments are usually liquid and traded on exchanges, alternatives are less liquid/off-market.
4. Equity shares confer ownership and voting rights, with returns via dividends and capital appreciation.
5. Unlisted equities are less liquid, may have restricted transferability.
6. Debt/fixed income: issuers promise scheduled payments; examples include government and corporate bonds.
7. Money market securities have short-term maturity; capital market instruments are long-term.
8. Debt earns a "term premium" for longer duration and higher uncertainty.
9. Derivatives derive value from underlying assets; include futures and options.
10. India allows exchange-traded derivatives for equities, debt, currencies, commodities.
11. Venture capital (VC) invests in startups, high risk/high potential.
12. VC investments focus on new products, services, and tech-based companies.
13. Venture debt finances startups with prior VC backing, usually with higher interest.
14. Private equity (PE) funds invest in unlisted/late-stage or control deals; can include growth capital, LBOs, mezzanine capital.
15. Hedge funds deploy complex, leveraged, multi-asset strategies.
16. Real estate/infrastructure: direct investments or via instruments like REITs, InvITs.
17. Distressed securities are from companies in financial distress, often held by specialized managers.
18. Art, collectibles, ESG or tech-based funds are growing alternative investment areas.
19. Fund-of-funds (FoF) invest in other funds, offering additional diversification.
20. Direct investment: buying assets (stocks, gold, bonds) directly.
21. Registered Investment Advisers (RIAs) provide advice, are fee-based, and regulated by SEBI.
22. Managed portfolio solutions: mutual funds, collective investment schemes, PMS, AIFs.
23. Mutual funds pool investments and are strictly regulated.
24. PMS allows discretionary or advisory management—individual portfolios.
25. AIFs pool funds from sophisticated investors under a defined policy.
26. Alternative investments play a key role in portfolio diversification and alpha generation.
27. They can help manage volatility and offer exposure to emerging opportunities.
28. Complex structuring and documentation are hallmark limitations of AIFs.
29. Illiquidity, transparency, and regular income are potential downsides of alternatives.
30. Global AIF market is rapidly growing, led by the US and Europe, with India as an emerging centre.
31. PE and VC industry is a major driver of alternative assets globally.
32. AIFs can include sunrise sectors: AI, green energy, ESG, tech, special situation funds.
33. Institutional investors have led growth worldwide in alternatives.
34. Fund-of-funds diversify by giving exposure to various managers and themes.
35. Hedge fund styles: FoF, multi-strategy, managed futures.
36. India's regulatory framework: only select investor classes, minimum investment thresholds in AIFs.
37. PMS vs AIF: PMS requires minimum ₹50 lakh, customized portfolios; AIFs require ₹1 crore, pooled vehicles.
38. AIFs can take exposure to a variety of instruments, including those not open to PMS/mutual fund.

39. SEBI regulates mutual funds, PMS, AIFs, and sets rules on minimum investments and transparency.
40. AIFs designed for long-term investment, with restrictions on redemption.
41. Performance in alternatives is harder to benchmark—manager skill plays a bigger role than for mutual funds.
42. Global market shifts, regulatory changes, and technological advances constantly shape alternative investing.
43. Investors must analyze risk, liquidity needs, and suitability when choosing between avenues.
44. India offers differentiated treatment, incentives, and regulation for VC, PE, and hedge funds.
45. Alternative assets surged post-2008 financial crisis, as traditional options struggled.
46. Investor sentiment is tied to interest rates, global economic cycles, and risk appetite.
47. Allocation models balance traditional and alternative investments for optimized returns.
48. Complex fee structures, including hurdle rates and carried interest, are commonplace.
49. Market access for alternatives requires thorough due diligence.
50. Increasing regulatory focus on transparency, investor protection, and systemic risk in alternatives.

# CHAPTER 3: CONCEPT OF INFORMATIONAL EFFICIENCY

1. Operational efficiency concerns transaction/impact costs; informational efficiency concerns the reflection of information in prices.
2. In an informationally efficient market, prices always fully reflect available information.
3. An efficient market's price is an unbiased estimate of true value.
4. Price deviations from true value are random; thus, one cannot consistently "beat the market" using any strategy.
5. The market price mimics intrinsic value based on all investment characteristics.
6. Efficient market hypothesis (EMH) has three forms: weak, semi-strong, strong.
7. Weak-form EMH: prices reflect all historical data; technical analysis yields no consistent excess returns.
8. Semi-strong EMH: prices reflect all public information (including historical); fundamental analysis is futile for abnormal returns.
9. Strong-form EMH: prices reflect all information (public + insider); even insiders cannot achieve superior risk-adjusted returns.
10. Random Walk Theory: price changes are independent and identically distributed.
11. Fama (1970) formalized and classified EMH.
12. Evidence on EMH is mixed; anomalies exist.
13. External anomalies: capital flows, tax timing, liquidity events create calendar effects.
14. Size anomaly: small firms often have higher risk-adjusted returns, contrary to EMH.
15. Value anomaly: high book-to-price stocks may outperform, sparking value investing.
16. Market anomalies challenge the practical validity of strict EMH.
17. Technical analysis is ineffective in weak-form efficient markets.
18. Fundamental analysis is ineffective in semi-strong-form efficient markets.
19. Index funds have grown due to the difficulty in beating efficient markets and their lower costs.
20. EMH requires large numbers of profit-seeking participants.
21. "Internal contradiction" of EMH: active attempts to exploit inefficiency drive prices toward efficiency.
22. No trading rule or pattern gives a trading edge in an efficient market.
23. In a world of perfect information efficiency, only liquidity or risk preferences drive trades.
24. Securities markets adjust rapidly to new, publicly available information.
25. Empirical tests of EMH show patterns inconsistent with theory.
26. Calendar anomalies: January effects, end-of-year effects.
27. Behavioral biases and limits to arbitrage can create temporary inefficiency.
28. Efficient markets minimize the benefit of research, analysis, and market timing.
29. Most active managers underperform net of fees over the long term.
30. In EMH, abnormal returns can only result from luck or risk-taking, not analysis.
31. Market efficiency implies that expected returns are risk-consistent.
32. Strategies chasing alpha in efficient markets tend to revert to mean over time.
33. Regulation, technology, and disclosure standards impact the degree of informational efficiency.
34. As new data emerge, market prices adjust quickly.
35. The popularity and rise of passive investment products is a direct result of market efficiency concepts.
36. Arbitrage opportunities in efficient markets are quickly eroded.

37. Market anomalies—such as momentum, pricing errors, or reaction delays—attract attention and research.
38. Price is treated as a sufficient statistic for decision-making in strong-form EMH.
39. Index fund performance benchmarks set hurdles for active managers.
40. Markets become efficient due to arbitrage and information-seeking activity.
41. Prices at any time reflect the equilibrium of information.
42. New information arrival is what drives immediate price adjustments.
43. Market anomalies can indicate niches where efficiency is incomplete.
44. In practice, markets may be "efficient enough" for most investors.
45. The distinction between risk and expected return remains central.
46. Asset bubbles and crashes do occur—extreme deviations from efficiency.
47. Semi-strong-form EMH is most often assumed in modern capital markets.
48. Constant monitoring of anomalies and their persistence is key for all investment professionals.
49. EMH does not imply prices are always correct, just that errors are not systematically exploitable.
50. Long-term, passive investing is rational in highly efficient markets.

# CHAPTER 4: INTRODUCTION TO MODERN PORTFOLIO THEORY

1. Modern Portfolio Theory (MPT) by Markowitz quantifies diversification.
2. Diversification reduces risk by combining assets with imperfect correlation.
3. Investors prefer maximum return for a given risk, or minimum risk for a given return.
4. Investors base decisions on expected return and risk (as measured by variance/standard deviation).
5. Utility maximization incorporates risk aversion; more risk averse—higher penalty for risk.
6. Expected return for an individual asset is a probability-weighted average of possible outcomes.
7. Variance and standard deviation measure an asset's risk.
8. Portfolio return is the weighted average of individual asset expected returns.
9. Portfolio risk takes into account asset weights, their individual variances, and pairwise covariances.
10. Correlation measures the degree securities move together; ranges from -1 to +1.
11. Portfolio risk is minimized at lower correlations.
12. When correlation is +1, diversification does not reduce risk.
13. Negative correlation between assets can theoretically lead to zero-risk portfolios.
14. Efficient frontier is the set of optimal portfolios offering highest expected return for a given risk.
15. All portfolios below the efficient frontier are sub-optimal.
16. Investors choose portfolios on the efficient frontier according to their risk tolerance.
17. The inclusion of a risk-free asset extends the efficient frontier to a straight line (capital market line).
18. Adding more securities to a portfolio decreases unsystematic risk.
19. Total risk = systematic (market) risk + unsystematic (asset-specific) risk.
20. Only systematic risk remains after diversification.
21. Utility functions allow personalized measurement of risk preferences.
22. More risk-averse investors require larger risk premiums.
23. Estimation risk arises from uncertainty in return, variance, correlation forecasts.
24. Portfolio optimization seeks the asset mix that maximizes expected utility.
25. Constraints (regulatory, liquidity, tax, ethical) affect feasible portfolios.
26. Use of variance-covariance matrix is essential for multi-asset portfolio risk estimation.
27. Portfolio managers must estimate expected returns, variances, and covariances.
28. Increasing number of assets increases diversification but complicates estimation.
29. In practice, 20-30 stocks suffice for most diversification benefits.
30. Non-normal return distributions, liquidity, and transaction costs complicate real-world optimization.
31. Efficient frontier shifts with changing inputs; rebalancing is critical.
32. Statistical models can automate optimal allocation.
33. Portfolio performance measurement is essential for ongoing management.
34. Sophisticated investors may use multi-period optimization.
35. Practical challenges include estimation errors and dynamic market changes.
36. Risk/return calculus underpins asset allocation policy.
37. Portfolio return calculation relies on holding-period returns, dividend reinvestments, etc.
38. Portfolios must be periodically rebalanced to maintain optimality.
39. Real-world diversification benefits can decrease in times of market stress (correlations rise).
40. Risk-reward trade-off is visualized with mean-variance efficient curves.
41. Constraints may force sub-optimal asset allocations.
42. Utility maximization reflects individual's trade-off between risk and return.
43. Portfolios must be appropriately benchmarked.

44. Technology enables more granular risk analysis and allocation efficiency.
45. Investors should periodically review their risk-aversion parameters.
46. Efficiency measurement can change due to regulation and innovation.
47. Portfolio optimization is foundational for fiduciary investing.
48. Asset allocation determines the majority of portfolio returns.
49. Diversification principle remains a cornerstone—“don’t put all your eggs in one basket.”
50. Investment professionals must understand both theoretical and practical limitations.

# CHAPTER 5: INTRODUCTION TO CAPITAL MARKET THEORY

1. Capital Market Theory builds on MPT by adding a risk-free asset.
2. Investors can borrow/lend at the risk-free rate in theory.
3. All investors target a point on the efficient frontier, selected by their risk-return utility.
4. Homogeneous expectations: all investors estimate identical return distributions.
5. Efficient market: asset prices reflect risk-appropriate returns.
6. Capital Market Line (CML) shows efficient combinations of risk-free asset and market portfolio.
7. Risk-free asset has zero variance and zero correlation with risky assets.
8. Market portfolio includes all risky assets, in proportion to their market value.
9. Borrowing at the risk-free rate extends CML beyond market portfolio—leveraged positions.
10. Only systematic risk remains in market portfolio; unsystematic risk is diversified away.
11. CML demonstrates that optimized portfolios include risk-free lending/borrowing.
12. Capital Asset Pricing Model (CAPM) determines expected return as a function of beta.
13. Beta measures asset's covariance relative to market's variance.
14. Expected return = risk-free rate + beta × market risk premium.
15. Security Market Line (SML) graphs required return vs beta.
16. In equilibrium, all assets plot on the SML.
17. Overvalued securities plot below, undervalued above SML.
18. Empirical studies show beta is more stable for portfolios than single stocks.
19. Beta tends to revert toward one over time.
20. Positive (but not always linear) relation between risk and return across stocks and portfolios.
21. Multifactor models, like Arbitrage Pricing Theory (APT), extend CAPM by introducing multiple sources of systematic risk.
22. APT does not require mean-variance efficiency or normal returns.
23. Risk in APT is measured via multiple betas tied to several macroeconomic factors.
24. Diversification reduces idiosyncratic risk; only systematic (factor) risk matters for pricing.
25. Risk/return equilibrium is achieved via market forces.
26. Market portfolio enforces pricing discipline through arbitrage.
27. Market proxies (indices) may not perfectly represent true market portfolio.
28. Underlying capital market assumptions: no taxes, no transaction costs, infinite divisibility, single time horizon.
29. Real-world deviations affect theoretical predictions but the model remains useful.
30. Leveraged portfolios increase risk and return beyond that of market portfolio.
31. No further diversification benefit exists beyond the market portfolio.
32. All rational investors combine market portfolio and risk-free asset.
33. Borrowing at the risk-free rate amplifies market exposure.
34. Lending at the risk-free rate dampens market exposure.
35. Systematic risk is priced, unsystematic risk is not.
36. Return on risk-free asset is the base; market risk premium is applied proportionally to beta.
37. SML formally distinguishes systematic risk from total risk for individual assets.
38. Empirical model testing is essential for practical application.
39. Market beta is fundamental for performance evaluation, benchmarking.
40. CAPM can be adapted to international, sector, and style factors.
41. Beta is a forward-looking measure, but historically estimated.

42. Multi-factor risk models enable more nuanced risk control.
43. Standard deviation alone is not sufficient risk measure in a two-asset world; covariance counts.
44. Incomplete markets, information asymmetry, and market imperfections affect realized returns.
45. CAPM remains a foundational tool for investment analysis.
46. Modern risk management often relies on factor-based models.
47. Fluctuations in risk-free rate alter required returns market wide.
48. All risk premiums reflect the need for compensation for non-diversifiable risk.
49. Systematic risk cannot be eliminated through any kind of diversification.
50. For optimal portfolios, the focus is always on maximizing reward per unit of systematic risk.

# CHAPTER 6: ALTERNATIVE INVESTMENT FUNDS IN INDIA AND ITS SUITABILITY

1. SEBI (AIF) Regulations, 2012 are the primary regulations governing AIFs in India.
2. AIFs are privately pooled investment vehicles with defined strategies and policies.
3. Not all pooled vehicles are AIFs—mutual funds, collective investment schemes, ESOP trusts, and regulatory entities are excluded.
4. AIFs are categorized based on strategy and asset class: VC, PE, debt, infrastructure, SME, hedge, social impact, special situations funds.
5. Category I AIFs invest in start-ups, SMEs, infrastructure, social impact; receive regulatory or fiscal incentives.
6. Category II AIFs include PE funds and debt funds without leverage; do not receive special incentives.
7. Category III AIFs include hedge funds and funds employing leverage, derivatives, complex strategies.
8. A fourth category, Specified AIFs, has now been inserted.
9. Minimum investment per investor is ₹1 crore (₹25 lakhs for employees/directors); minimum fund corpus per scheme is ₹20 crore.
10. Max investors per scheme: 1,000.
11. Only sophisticated and accredited investors (domestic or foreign) can invest; general public cannot.
12. Category I AIFs cater to financiers who seek early-stage, high-growth opportunities.
13. Category II AIFs are more suitable for institutional, family office, longer-term capital, including buyouts and debt strategies.
14. Category III AIFs are suited for short-term, leveraged or market-neutral strategies.
15. NRIs and FPIs can invest; FEMA regulations and SEBI guidelines apply for foreign flows.
16. Fund managers (sponsor or trustee) must contribute a minimum “skin in the game” (2.5% or ₹5 crore for Cat I/II; 5% or ₹10 crore for Cat III).
17. Angel Funds have specific rules: minimum investment, net worth/investment experience requirements.
18. Fund-of-funds structures allow investment in other AIFs.
19. Fund documents: Private Placement Memorandum, Trust Deed/LLP Deed, Investment Management Agreement, Contribution Agreement.
20. Investors should analyze investment objective, strategy, fund structure, redemption terms, fees, and manager experience in PPM.
21. Category I and II AIFs are close-ended; Cat III can be open or closed-ended.
22. Allocation examples: seed, venture, growth, pre-IPO, sector, geography, deal stage.
23. Portfolio allocation must consider risk, liquidity, ticket size, and concentration rules.
24. Portfolio restrictions: single investee exposure (25% for Cat I/II, 10% for Cat III); limits on leverage for Cat III.
25. Suitability for retail or non-risk-taking individuals is low; high minimums and complex terms.
26. HNIs and institutions diversify using AIFs to access private market, structured products, and alpha-generating opportunities.
27. Government initiatives: SIDBI "fund of funds," National Infrastructure Investment Fund.
28. GST and tax rules affect net returns and structure.
29. Regulatory compliance, periodic reporting, audit, and transparency obligations apply.

30. Indian AIF market has seen rapid growth, with over 1,600 registered AIFs and commitments exceeding ₹13.49 lakh crores as of March 2025.
31. Cat III AIFs offer more active, leveraged, or long-short investment opportunities.
32. Comparison with PMS and mutual funds shows key differences: pooling, minimum investments, investor eligibility, redemption, leverage, and regulation.
33. Mutual funds and SIFs serve broader retail bases, with lower minimums and more regulation.
34. Specialized Investment Funds bridge the gap (new regulatory category).
35. Diversification across AIF categories offers enhanced risk-adjusted returns.
36. Complex strategies and illiquidity confer higher risk, and more potential reward.
37. Investment managers disclose all details in PPM; due diligence is critical.
38. PPM contains investment policy, structure, manager profile, fees, redemption terms.
39. Fund closing: first close (when minimum is raised), final close (after end of fundraising period).
40. Secondary transfers allowed only via private placement; illiquidity is high.
41. Regulatory oversight includes SEBI, FEMA, PMLA, RBI, CBDT, and Ministry of Finance.
42. AIFs can be structured as trusts, LLPs, companies, or other body corporates; trust structure is most popular.
43. Offshore and onshore AIF structures differ in tax and regulatory impacts.
44. Unlisted investments may offer high return and risk; proper risk analysis is key.
45. Early-stage AIF investments require longer horizons, higher risk tolerance.
46. Leverage is permitted only in Cat III, with regulatory caps.
47. Managers provide regular financial, valuation, and performance disclosures.
48. Accredited investors may avail of exemptions or lower minimums.
49. Fees include management, performance (incentive), and operating costs; varied by asset class and negotiation.
50. Investor protection and systemic risk management remain a key regulatory focus.

## CHAPTER 7: ALTERNATIVE INVESTMENT FUND ECOSYSTEM

1. The AIF ecosystem includes investors, sponsors, trustees, managers, and external service providers.
2. Key investors globally include foundations, endowments, insurance companies, pension funds, sovereign wealth funds, family offices, HNIs, and fund of funds.
3. In India, AIFs can accept investments from domestic, foreign, and NRI investors, subject to a minimum commitment.
4. The minimum commitment per investor in an AIF is ₹1 crore (₹25 lakh for employees/directors of AIF/Manager).
5. Each AIF scheme must have a minimum corpus of ₹20 crore.
6. Maximum number of investors in any single AIF scheme is 1000.
7. Accredited Investors (AIs) may access special flexibility in investment amounts and regulatory relaxations.
8. The structure of AIFs (trust, LLP, company) determines the title of investors—unit holders, partners, or shareholders.
9. Sponsors initiate AIFs and are responsible for registration, investment, and compliance activities.
10. Trustees are required for AIFs structured as trusts; they oversee regulatory compliance and protect investors' interests.
11. The investment manager executes the fund's investment strategy and may also be the sponsor.
12. Managers must possess skills in deal sourcing, structuring, active management, networking, and return harvesting.
13. Appointment of a SEBI-registered Custodian is mandatory for AIFs.
14. External service providers include merchant bankers, RTAs, custodians, fund administrators, tax and legal advisers, and auditors.
15. Merchant bankers conduct due diligence and assist with PPM filings to SEBI.
16. Registrar and Transfer Agents are responsible for unit administration and related investor recordkeeping.
17. The custodian ensures safekeeping, settlement, and reporting of securities.
18. Fund administrators manage accounts, NAV calculations, compliance reporting, and financial statements.
19. Distributors and placement agents bridge investors and fund managers.
20. Tax advisors optimize fund structuring, compliance, and investor returns (post-tax).
21. Legal advisors draft all major fund documentation and provide regulatory guidance.
22. Auditors conduct annual audits of books, annual PPM reviews, and internal audits.
23. Investment advisors offer sector- or theme-specific advice, especially to offshore funds.
24. Capital commitment: total legally binding commitment investors promise to provide the fund during its tenure.
25. Drawdown: process by which managers call capital commitments for specific investments.
26. Sponsor/manager must maintain a continuing interest—2.5% of corpus or ₹5 crore (Cat I/II); 5% or ₹10 crore (Cat III), whichever is lower.
27. First close: initial closing of the fund once minimum corpus/period is achieved.
28. Final close: deadline for accepting further commitments, usually 12-18 months after first close.
29. Green shoe option: allows the AIF to increase its fund size beyond the initially targeted corpus in case of excess commitments.
30. Private Placement Memorandum (PPM) provides all regulatory, strategic, and operational details to potential investors.

31. The investment committee or investment manager is responsible for selecting, monitoring, and exiting investments.
32. Conflict of interest policy must exist to address potential conflicts between fund stakeholders.
33. Code of conduct and fiduciary responsibility standards apply to managers, sponsors, and other fiduciaries.
34. Co-investment is allowed for Category I and II AIF managers, sponsors, and investors alongside the main AIF scheme.
35. Service providers must not cause conflicts or unduly influence operations or investments.
36. Fees, expenses, management, and incentive structure must be outlined in the PPM.
37. Management and sponsor contributions are locked in until all investor payouts are settled.
38. Clarity on redemptions, lock-ins, and exit loads is critical for investor transparency.
39. Socially responsible and ESG-compliant investing is increasing in importance in Indian AIFs.
40. SEBI mandates annual audits and periodic reporting to ensure compliance and transparency.
41. Robust IT and trading infrastructure supports efficient and timely operations for AIFs.
42. Crowdfunding and P2P lending are distinct from AIFs and governed by separate regulations.
43. Corporate venture capital, while similar in private nature, differs due to strategic (not pooled) objectives.
44. Distribution and "waterfall" mechanics, including European and American models, determine how and when investors and managers receive returns.
45. Clawback provisions protect investors if managers receive excess incentives earlier in the fund's life.
46. All fund records must be preserved for at least 5 years post-winding-up.
47. Governance standards are enforced by SEBI to ensure market integrity and investor protection.
48. PPM amendments require specific SEBI disclosures and updates.
49. Stewardship Code requires institutional engagement, stewardship, and ESG integration.
50. Investors must thoroughly read and understand the PPM and all key term sheets before committing capital.

## *CHAPTER 8: ALTERNATIVE INVESTMENT FUND STRUCTURING*

1. Pooling is the central concept—investors' contributions are aggregated for collective management.
2. Main AIF structures are Trust, LLP, and Company (private/public limited).
3. Most Indian AIFs are structured as determinate, irrevocable, private trusts for tax and operational reasons.
4. Trusts offer favorable tax transparency but lack legal personality (trustees act as legal representatives).
5. LLPs offer limited liability and legal entity status, with partners as investors, sponsors, and managers.
6. Company structure is least used due to cumbersome compliance and 200-shareholder restriction.
7. Pooling vehicles must assure limited liability, tax neutrality, and regulatory compliance.
8. Complexity in fund structuring should be reasonable to avoid anti-avoidance scrutiny (GAAR).
9. Fund constitution must clearly determine each investor's share—hence the use of units.
10. Funds must select pooling jurisdiction carefully, especially when foreign investors are involved.
11. Offshore funds (Mauritius, Singapore, Dubai, Luxembourg, GIFT City, etc.) facilitate FDI and treaty benefits.
12. Onshore funds pool both domestic and offshore capital within India, governed by SEBI AIF regulations.
13. Unified structure channels both domestic and offshore investors' commitments into an onshore pooling vehicle.
14. Master-feeder structure uses feeder funds in different jurisdictions (often Mauritius/Singapore) feeding into a single master fund.
15. Parallel fund structure allows offshore vehicles to invest directly alongside onshore AIFs in target companies.
16. Feeder funds are useful for pooling investors' contributions from advantageous foreign jurisdictions.
17. Resident Indians can invest abroad through LRS, with annual limits under FEMA.
18. Approval from RBI/SEBI is required for specific foreign investment structures.
19. Category III AIFs can be open-ended or close-ended; Categories I and II must be close-ended.
20. Open-ended funds permit continuous unit subscription and frequent redemption.
21. Closed-ended funds have fixed corpus, fixed term, and usually a lock-in for investors.
22. Lock-in, exit loads, and tenure of funds must be clearly defined in the PPM.
23. Manager or sponsor must appoint trustees/designated partners, depending on fund structure.
24. Each structure provides pros and cons in disclosure, entry/exit of investors, and regulatory compliance.
25. Investors' and managers' commitments are locked in for the fund's duration.
26. Service providers—custodian, administrator, registrar, auditors—must be properly appointed and compliant.
27. Fund structure impacts regulatory reporting, investor protection, and taxation.
28. AML/CFT compliance is required; pooling vehicle jurisdictions must be FATF-compliant.
29. Corporate buyouts (MBO, LBO, MBI) can involve AIF structures.
30. Buyouts require larger corpus and financial engineering for control/exit strategies.
31. Leverage in deals (as in buyouts) raises financial risk but can enhance returns.
32. Indemnity and liability provisions must be carefully structured to protect investors.
33. Reserve creation for unforeseen liabilities (e.g., taxes) may be included in waterfall distribution.

34. Differential rights can exist for investor classes (priority in payouts, different fees), disclosed in PPM.
35. Parallel structures provide tax, regulatory advantages to specific foreign investor classes.
36. Large investors may negotiate direct co-investments for better economics.
37. All structures must comply with SEBI and RBI regulations.
38. Investments via P-Notes, ODIs, and FPI routes are subject to their own set of rules.
39. Internal governance must separate investment, compliance, and administration functions.
40. Dispute resolution mechanisms—arbitration, mediation—should be defined in the fund documents.
41. Set-up costs, operational, and transaction expenses should be capped and transparently disclosed.
42. Valuation norms, NAV computation, and reporting mechanics are affected by fund structuring.
43. Board and committee compositions must prevent conflicts of interest.
44. Investors' entry and exit procedures (e.g., in LLP/Company) involve regulatory filings and disclosures.
45. Regulatory filings with GIFT City and other IFSCs must be observed for special AIFs.
46. Structuring influences investor confidentiality: LLP/Company records are public; trust structures offer privacy.
47. Set-up and recurring compliance costs differ across structures.
48. Inappropriate structuring can lead to fund termination or investor claims.
49. Any structure changes post-launch require investor and SEBI approval.
50. Structuring must support clear, enforceable, and documented rights for all stakeholders.

## *CHAPTER 9: FEE STRUCTURE AND FUND PERFORMANCE*

1. Management fees compensate investment managers for their expertise and are usually a fixed percentage of AUM or committed capital.
2. In Category I/II AIFs, management fee typically applies to committed capital during commitment period, then to invested capital or AUM thereafter.
3. In Category III AIFs, management fee is usually charged on the Gross NAV.
4. The typical management fee range is 1-2.5% per annum.
5. Incentive (performance) fees are typically charged as a percentage (often 15-20%) of returns above the hurdle rate or high-water mark.
6. Hurdle rate is the minimum required return investors must achieve before performance fees are paid—usually 7-12% INR (India), 5-8% USD (global).
7. High-water mark ensures managers only receive incentive fees on returns above the highest previous value.
8. Catch-up provisions allow managers to "catch up" and receive a certain level of profits after hurdle rates are met.
9. Performance fees can be calculated deal-by-deal, annually, or at fund closure.
10. Clawback provisions require managers to return excess performance fees if overall fund returns decline.
11. Set-up and organization expenses are upfront costs (legal, compliance, documentation), typically 1.5-2.5% of committed capital and amortized over time.
12. Fund operating expenses include administration, legal, custodian, audit, IT, and regulator fees.
13. Transaction expenses include brokerage, depository fees, and all costs related to investments and exits.
14. Trusteeship fees are fixed, typically ₹1-5 lakh/year.
15. Total expense ratio (TER) is important—excessive fees can erode returns.
16. GST (currently 18%) applies to professional and management fees, impacting investor returns.
17. Different investor classes/units may have differentiated fees, rights, and return profiles.
18. Pre-expense (gross) returns: returns before deducting fund expenses, management, and incentive fees.
19. Post-expense/pre-incentive returns: after expenses and management fees but before incentive fees.
20. Post-expense/post-incentive returns: net to investor after all fees, costs.
21. Compounded annual growth rate (CAGR) measures average annualized return factoring compounding.
22. Internal Rate of Return (IRR) is widely used for measuring performance of private markets.
23. TVPI (Total Value to Paid-In) = residual value + distributions / capital paid in.
24. DPI (Distributed to Paid-In) = distributions/capital paid in, measures "cash-on-cash."
25. RVPI (Residual Value to Paid-In) = current NAV/capital paid in.
26. J-curve effect: private funds may show negative/low returns in early years, with higher returns as investments mature.
27. Four main risk metrics: standard deviation (volatility), skewness, kurtosis, maximum drawdown.
28. Value-at-Risk (VaR) is a common risk measure.
29. Sharpe Ratio (excess return/standard deviation) measures risk-adjusted returns.
30. Treynor Ratio (excess return/beta) measures systematic risk-adjusted returns.
31. Alpha: fund's excess returns vs. benchmark (can reflect either selection skill or exposure to alternative risk).
32. Beta measures correlation with broader market.

33. Different funds have different risk profiles and must report accordingly.
34. Investors should assess pre- and post-tax returns, as AIFs have different tax treatments.
35. All fees and fund costs must be clearly disclosed in the PPM.
36. Fee structure (especially catch-up and clowbacks) should align interests of managers and investors.
37. Distribution waterfalls (European vs. American) determine order of payments.
38. Clawbacks protect investors from overpayment of performance fees due to subsequent losses.
39. Set caps on operational and setup expenses to preserve returns.
40. Taxation of management, incentive, and setup fees must be accounted for in expected IRRs.
41. Fund performance reporting should be in compliance with Global Investment Performance Standards (GIPS).
42. NAV computation frequency (daily, monthly, quarterly) as per the PPM has implications for transparency.
43. Fee "crystallization" may occur at exit or over time; this timing affects net returns.
44. Fund of funds structures may layer fees—investors should understand total fee burden.
45. High fees can materially reduce long-term compounded returns (fee drag).
46. Investors should scrutinize the impact of leverage and risk-reward trade-offs on net performance.
47. Proper benchmarking, including use of relevant indices, is crucial for performance evaluation.
48. Fund risk disclosures in Annexures must be read before investing.
49. Special taxes (surcharge, GST, etc.) may significantly impact overall fund economics.
50. Actual investor returns depend on the interplay of gross returns, expenses, incentive structures, taxes, and timing.

## *CHAPTER 10: INDICES AND BENCHMARKING*

1. An index is a statistical measure representing a portfolio of securities and serves as a benchmark for performance.
2. Main index uses: benchmarking, passive investing, performance evaluation, and product development (ETFs, derivatives).
3. Stock indices: SENSEX, NIFTY, sectoral indices, small/midcap indices.
4. Fixed income indices: government/corporate bond indices, composite indices.
5. Index construction methodologies: price-weighted, value-weighted, equal-weighted.
6. Index selection criteria: liquidity, free-float market cap, sector balance.
7. Calculation of index returns: price return, total return (includes dividends).
8. Rebalancing and reconstitution schedules affect index composition.
9. Sectoral and thematic indices offer benchmarking for specialized mandates (e.g., ESG, infra).
10. Custom indices are used for alternative asset performance measurement.
11. Benchmark selection must match fund strategy, asset class, and liquidity profile.
12. Tracking error is the deviation of fund returns from the benchmark; a key risk for managers.
13. Performance benchmarking aligns investment targets and compensation.
14. Absolute vs. relative returns must be distinguished; relative returns measure performance vs. index.
15. Beta is calculated with respect to selected indexes.
16. Funds must disclose their chosen benchmark in the PPM.
17. Benchmarks shape performance reporting, risk analysis, and investor expectations.
18. Indian benchmarks are regulated by SEBI (indices must be approved).
19. Composite benchmarks may be needed for multi-asset or hybrid funds.
20. Indexing is used in passive/quant/ETF strategies; active managers aim for alpha.
21. Peer group benchmarks compare with a cohort of similar funds.
22. Use of a “stretch” or “aspirational” benchmark is not recommended for investor communications.
23. Index methodology changes (base year, weights) may cause abrupt shifts in reported performance.
24. Standardized reporting improves comparability across AIFs.
25. Out/underperformance must be contextualized against prevailing benchmark volatility.
26. Regulatory guidance mandates certain disclosures for index-linked AIFs.
27. Transparent, replicable indices promote investor confidence.
28. Arbitrage opportunities occasionally arise due to index construction or rebalancing.
29. Sector rotation and market cap changes drive index constituent turnover.
30. Indices can be customized for reporting performance to specific classes of investors.
31. Category III AIFs often use broad market or sector indices; PE/VC funds may need custom benchmarks.
32. Private market indices use proprietary methodologies (e.g., Cambridge, Preqin).
33. Benchmarking helps assess managers’ skill versus market/environmental effects.
34. Extended time-series facilitate trend analysis and manager evaluation.
35. ESG and sustainability indices are increasingly relevant.
36. Composite bond/equity indices provide holistic benchmarks for diversified AIFs.
37. Index returns may diverge sharply from individual constituent performance.
38. Benchmark selection must consider investment restrictions, leverage, and liquidity.
39. Index-linked derivatives are used by Category III AIFs for hedging/alpha.
40. Index construction errors or data lags may lead to tracking discrepancies.
41. Use of indices in reporting must comply with relevant SEBI Guidelines and GIPS standards.
42. Monthly, quarterly, annual index data informs performance reporting.

43. Exclusion of outliers from peer groups improves comparison.
44. Investors must evaluate benchmarks critically; “soft” or managed indexes are discouraged.
45. AIFs should rebalance portfolios towards the benchmark to avoid drift.
46. Managers should avoid “benchmark-hugging” if aiming for alpha.
47. Over time, benchmarks may need revision as strategy/focus changes.
48. Market cap changes in indices influence liquidity and reweightings.
49. Funds’ liquidity and redemption features should be compared to index characteristics.
50. Transparency and integrity of benchmark methodology is crucial.

## *CHAPTER 11: INVESTMENT STRATEGIES, INVESTMENT PROCESS AND GOVERNANCE OF FUNDS*

1. Investment strategies for Category I/II AIFs focus on early/later stage private equity, venture capital, debt, infra, and SME investments.
2. Category III AIFs employ diverse strategies including long-only, long-short, market-neutral, arbitrage, and derivatives.
3. Investment policy (detailed in PPM) must align with investor risk-return expectations.
4. Deal sourcing is a primary activity for AIF managers—networks, bankers, entrepreneurs are key channels.
5. Due diligence before investments includes financial, legal, operational, and ESG assessments.
6. Investment decisions require approval by investment committee or designated authority.
7. Definitive agreements (SHA, SPA, loan agreements) govern investment terms.
8. Investor protection mechanisms—board seats, veto rights, liquidation preferences—are often negotiated.
9. Fund governance requires clear segregation of manager, trustee/sponsor, compliance officer, and investment roles.
10. SEBI prescribes rules for fund governance to minimize conflicts of interest.
11. Human capital risks—key man clauses, team stability—must be taken seriously.
12. Co-investments (side-by-side investments with main AIF) provide large investors additional opportunities—for Cat I/II.
13. Code of conduct and fiduciary duties binding on managers, sponsors, and committee members.
14. Industry best practices include transparency, regular reporting, and conflict mitigation.
15. Investment restrictions (sector, issuer, geography, leverage) must be documented and adhered to.
16. Diversification is enforced via exposure/cap limits.
17. Size and structure of the investment team impact operational efficiency and monitoring.
18. Quarterly reporting to investors on portfolio, exits, and risks is mandatory.
19. Aligning interests with investors—fee deferral, skin-in-the-game—encouraged.
20. Benchmarking against agreed indices is part of evaluation of manager performance.
21. Risk management encompasses operational, credit, concentration, ESG, and market risks.
22. Proper regulatory reporting and timely PPM amendments are obligations.
23. Policy for handling inside information (PIT regulations) must be in place.
24. Related party transactions require approval and disclosure.
25. Best execution policy ensures investments are made on arm's length, timely, market terms.
26. Redemptions (Category III, open-ended) follow clear rules on frequency, limits, and exit loads.
27. Closures (winding up, dissolution) must provide orderly, equitable liquidation and payout.
28. Investor voting may be required for major changes (strategy, manager, extension).
29. Investment committee composition should balance skill, independence, and sponsor interests.
30. Compliance officer's role includes regulatory interface, monitoring, and investor grievance.
31. Risk-adjusted return targets formalized through SOPT (Summary of Principal Terms).
32. Governance failure can trigger SEBI sanctions, fund suspension, or manager removal.
33. Policy on insider trading, front-running, and ethical dealing must be updated regularly.
34. Investor protection relies on documentation and prompt dispute resolution.
35. Managers must have disaster recovery and business continuity plans.
36. Alignment between sponsor, manager, and investor interests reduces long-term conflict risk.

37. Compensation structures (salaries, bonuses, carried interest) should avoid incentivizing reckless risk.
38. Related companies (sponsor, fund, service providers) must disclose material relationships.
39. Execution of investment and exit agreements must consider enforceability and commercial terms.
40. Handling defaulting/drag-along investors must be in PPM.
41. Resolving conflicts, co-investment allocation, and fee waivers must follow disclosed policies.
42. SEBI-mandated annual compliance audit is binding.
43. Adhering to AIF regulatory amendments (e.g., Cat III leverage, governance) is ongoing requirement.
44. ESG and sustainability expectations are rising among global LPs and regulators.
45. Special situation strategies (distressed, turnaround) require specialized skills and risk management.
46. Industry best practices—ILPA principles, GIPS, SEBI guidelines—should inform fund policies.
47. Record retention (5 years post-wind-up) is mandatory.
48. Pre-clearance of investments may be needed for large or conflict-prone transactions.
49. Robust cyber and data security controls are crucial due to confidentiality.
50. Manager removals and replacements must follow procedure in fund documents, with investor protection ensured.

## *CHAPTER 12: FUND DUE DILIGENCE – INVESTOR PERSPECTIVE*

1. Due diligence is performed at both fund level (prior to investment) and portfolio company level (pre-investment).
2. Investors evaluate manager's strategy, team experience, performance history, and governance standards.
3. Business, operational, and regulatory risks are considered during due diligence.
4. Alignment of manager's interests and track record are critical selection criteria.
5. Manager evaluation involves background checks on team, track record, and references.
6. Investment process scrutiny: sourcing, evaluation, decision-making, monitoring, and exit protocols.
7. Investment committee composition and independence is assessed.
8. Evaluation of risk management frameworks, including scenario analysis and stress testing.
9. Fee structure and water fall models must be transparent and competitive.
10. Legal document review includes trust deed, PPM, contribution agreements, IMAs, and committee charters.
11. Compliance policies (AML, KYC, insider trading) must be robust and enforced.
12. Transparency in reporting and communication practices is checked.
13. Manager control environment and audit processes are reviewed.
14. IT infrastructure and cyber/data protection reviewed for adequacy.
15. Reference checks with prior or co-investors give insight into the manager's reputation.
16. ESG and sustainability policies are increasingly a due diligence focus.
17. Key man clause ensures management continuity and succession, with remedies for breaches.
18. Co-investment policies are assessed for fairness and transparency.
19. Default, exit, and redemption policies are scrutinized for investor protection.
20. Conflicts of interest policies are reviewed and tested.
21. Investor protections during extensions or strategic changes (e.g., voting rights) are assessed.
22. Governance structure, board oversight, and advisory boards (if any) are evaluated.
23. Valuation policy must be GIPS-compliant, regular, and transparent.
24. Financial reporting frequency and standard must be adequate.
25. Tax structure evaluated for efficiency, transparency, and alignment with investor domicile.
26. Distribution and exit policies are checked for clarity and fairness.
27. Historical fund audits and NAV reporting are examined.
28. Fund policies for dealing with restatements or corrections are tested.
29. Insurance coverage for operational and investment risks should be in place.
30. Internal audit and compliance review schedules must be adequate.
31. Investor grievance redressal mechanisms are verified.
32. Managers' use of leverage is assessed against risk and regulatory caps.
33. Background screening includes legal checks (e.g., criminal, regulatory, financial).
34. Capital call and drawdown procedures are tested for operational soundness.
35. Manager's approach in stressed and downturn environments is evaluated.
36. Partner and service provider quality is assessed (law, audit, admin, bank, custodian).
37. Controls on access to confidential or price-sensitive information are checked.
38. Subscription and redemption procedures must be robust and documented.
39. Risk disclosures in documents are checked for completeness.
40. Code of conduct and whistleblower policies are required and examined.
41. Fund extension and winding up policies reviewed.
42. Procedures for exclusion, excuse, or side letters are assessed.

43. Investors request and review sample reports, statements, and notices.
44. Meeting regulatory eligibility (e.g., AIs, minimums) is verified.
45. Allocation procedures among multiple fund vehicles and classes are scrutinized.
46. Policy on side arrangements, exceptions, or “most favored nation” clauses is reviewed.
47. Exit terms and penalties for default are carefully assessed.
48. Investors check manager compliance with all relevant SEBI and global best practices.
49. Disclosure of prior fundtrack record, realized/unrealized returns, and IRRs is required.
50. Regular ongoing due diligence is essential throughout the investment period.

## *CHAPTER 13: LEGAL DOCUMENTATION AND NEGOTIATIONS*

1. Trust Deed/LLP Deed/Mem & Arts forms the constitutional document for AIFs.
2. Investment Management Agreement (IMA) details manager's appointment, duties, fee, removal rights.
3. Subscription/Contribution Agreement records specific investor's commitment, rights, obligations.
4. Private Placement Memorandum (PPM) is the main disclosure document—strategy, risks, fees, policies.
5. Shareholders' Agreements (SHA) for equity investments define rights, exit, and governance in investee companies.
6. Side letters may be issued to large investors with special terms (compliance, reporting, fees).
7. Waterfall and distribution provisions define order and priority of payouts.
8. Catch-up and clawback mechanisms included to balance interest during performance fees.
9. Key man, non-compete, exclusivity, and confidentiality clauses safeguard the fund.
10. Fund extension and wind-up procedures detailed.
11. Appointment and removal of service providers stipulated; transition mechanisms outlined.
12. Indemnity, liability limitation, and insurance provisions cover key risks.
13. Dispute resolution clause sets out arbitration/jurisdiction.
14. Regulatory, legal, and tax compliance warranties included.
15. ESG and responsible investing covenants may be included per investor demand.
16. Legal opinions and consents obtained before fund launch.
17. Fund structure amendments require defined investor and regulatory approvals.
18. Redemption, transfer, and assignability of units governed by the agreement/PPM.
19. Death/disability of investor and succession addressed.
20. Force majeure and business continuity provisions included.
21. Valuation and audit protocols legally defined and must align with regulatory requirements.
22. Subscription process and timing, including drawdowns and capital calls, documented.
23. Exit/lock-in/load and restrictions are enforceable clauses.
24. Tax treatment and withholdings on distributions specified.
25. Records and information rights detailed for investor access.
26. Investment restrictions (sector, size, leverage) must accord with law and PPM.
27. Excuse/exclusion clauses allow investors to opt out under defined circumstances.
28. Binding obligations and consequences of default are specified.
29. Manager removal and fund dissolution process included.
30. Confidentiality and intellectual property protections cover fund documents, strategy, and data.
31. Borrowing and leverage limitations spelled out.
32. Reporting frequency and format for financial statements and tax forms are stipulated.
33. ESG/impact reporting (if relevant) outlined specifically.
34. Assignment/transfer of management rights requires specified approval.
35. Multiple classes and side agreements must be disclosed and documented.
36. Investor representations and warranties obtained for compliance (KYC, source of funds).
37. Proxy voting and representation mechanisms for investor meetings addressed.
38. Restrictive covenants (e.g., non-solicit, no competing funds) defined.
39. Regulatory changes and compliance adaptation mechanisms articulated.
40. Amendment and waiver mechanisms detailed.
41. Liability for gross negligence, willful misconduct not excludable.
42. Power of attorney may be granted to manager for fund operations.

43. No guaranteed returns or "assured" statements are allowed.
44. Anti-money laundering/terror financing compliance covenanted.
45. Announcements and notifications protocols set for legal compliance and investor awareness.
46. Disclosure of conflicts and related party transactions required.
47. Provisions for investor class and priority discrimination (if any) must be transparent.
48. Currency, exchange, and remittance issues addressed in cross-border funds.
49. Entire agreement and survival clauses ensure full contractual coverage.
50. Legal documentation must be periodically reviewed for regulatory compliance and best practice alignment.

## *CHAPTER 14: VALUATION*

1. Robust and transparent valuation is critical for AIF credibility and investor protection.
2. Fixed income instruments valued using yield-based, discounted cash flow methods.
3. Equity valuation uses a combination of market price, peer multiples, DCF, or asset-based approaches.
4. Investments in private/unlisted companies use DCF, comparable company, transaction multiple, or asset-based methods.
5. Asset-based valuation assesses individual asset classes (real estate, infra, art) at fair market value.
6. Discounted Cash Flow (DCF) projects future cash flows and discounts at an appropriate risk-adjusted rate.
7. Relative/Multiple valuation compares with similar assets/transactions.
8. Periodic valuation frequency (quarterly/yearly) is mandated for AIFs; Category III often monthly.
9. Category III AIFs must compute and report NAV at fund and series/class level.
10. NAV = Value of assets – liabilities attributable to investor class/series.
11. Valuation regulations require independence, regularity, and SEBI compliance.
12. SEBI mandates appointment of registered third-party valuers for illiquid/unlisted assets.
13. Fund administrator/custodian often executes regular NAV computation and reporting.
14. Manager, sponsor, or affiliate may not value own related-party transactions.
15. All material changes in valuation policy or method must be disclosed to investors and SEBI.
16. NAV statements form the basis for subscriptions, redemptions, and performance measurement.
17. Valuation policy must be detailed in PPM/IMA and adhere to global best practices.
18. Category III AIFs must provide daily/monthly NAV for high transparency.
19. Category I/II AIFs report valuations at least every 6 months (quarterly encouraged).
20. Comparable transaction and market multiples are crucial for PE/VC valuation.
21. Revaluation events (financing, IPO, secondary sale) trigger interim valuation reports.
22. Valuer conflict of interest must be avoided and declared.
23. NAV reconciliation and audit ensure integrity; audit report to include NAV veracity.
24. Valuation adjustment on liquidity, control, and marketability must be made.
25. Mark-to-market (MTM) rules apply for listed positions.
26. “Fair value hierarchy” is used—quoted price, observable inputs, unobservable inputs (IFRS/Indian GAAP).
27. Impairment and write-downs must be taken on decline in recoverable value.
28. Upward revaluation is permitted only on demonstrable fair value increase.
29. Clear methodology for hard-to-value assets (eg. art, IP, distressed, infra) must be included.
30. ILPA/INREV guidelines are industry global benchmarks for valuation.
31. GIPS recommends strict calculation and disclosure standards.
32. Side pocketing for illiquid/distressed assets must comply with SEBI notification.
33. Investors must receive annual valuation summary with detail by asset/class.
34. Tax impact of valuation must be calculated/disclosed for investor tax planning.
35. Errors or restatements must be reported, corrected, and explained.
36. For multi-currency funds, conversion policies for NAV must be clear.
37. NAV for drawdown, fee, and distribution calculation must be consistent with methodology.
38. Guidelines for valuation of derivatives/structured products must be in PPM.
39. Use of price polling and external quotes where market prices are unavailable.
40. Active market status must be declared for each portfolio security.
41. Ensure valuation supports regulatory capital compliance for institutional investors.

42. Disclosures of key valuation assumptions are required for transparency.
43. Due care in selecting/rotating external valuers every few years.
44. Fair treatment of all investor classes and no value shifting across series.
45. NAV adjustments and unit splits/mergers detailed as per fund policy.
46. Internal/external audit verifies ongoing compliance.
47. Implications for TER and performance fees are central to the valuation schedule.
48. Regulatory filings of NAVs must be timely and accurate.
49. Valuation oversight by the fund board/committee or independent trustee.
50. SEBI may inspect and review fund valuation at any time.

## *CHAPTER 15: FUND MONITORING, REPORTING AND EXIT*

1. Regular monitoring of fund progress and portfolio performance is crucial.
2. Categories I/II AIFs must perform ongoing portfolio and underlying business reviews.
3. Managers must disclose investment, realization, and risk status.
4. Category III AIFs require robust monitoring due to market and leverage exposures.
5. Monitoring inputs include company financials, KPIs, compliance reports, and ESG factors.
6. Regulatory reporting encompasses portfolio, financial, risk, and compliance data to SEBI.
7. PPM must detail fund reporting frequency and format.
8. Investor reporting is mandatory—NAV, valuation, performance, risk, major events.
9. Exits from investments can be through strategic sale, IPO, secondary sale, buyback, or write-off.
10. Exit policies and schedules must be disclosed in PPM.
11. Secondary market (secondary AIF units/trades) exists for portfolio/LP transfers.
12. Winding up (liquidation) regulated by SEBI and fund documents; requires NAV determination and payout plan.
13. Dissolution periods prescribed for orderly wind-up.
14. Liquidation scheme details treatment of assets, liabilities, and distributions.
15. Distribution waterfalls (see earlier chapters) determine order and priority of payments.
16. Exit loads, lock-ins, and penalties for early redemption are clearly stipulated.
17. Investor voting may be required for major exits or strategy changes.
18. Tax, legal, and regulatory clearances are mandatory before exit and payout.
19. Fund administrators and custodians play key roles in settlement and reporting.
20. Exit valuations must meet regulatory and investor reporting standards.
21. Policies for defaulting, deceased, or insane investors must be in place.
22. Manager or sponsor may conduct fund buybacks under prescribed conditions.
23. Fund must report realization, unrecovered, and written-off investments.
24. Investors must receive final statements and tax certificates upon winding up.
25. SEBI mandates prompt updates on material changes, major exits, or events.
26. Recovery mechanisms for illiquid or distressed assets stipulated in the fund policy.
27. Exit options may include staggered payout or in-kind distribution.
28. Investor communication policies must ensure fair, timely updates.
29. Monitoring committees or advisory boards can enhance governance.
30. Documented process for cash distribution and escrow.
31. Reconciliation of all capital calls, distributions, and expenses before closure.
32. Contingent asset and liability treatment clearly outlined.
33. Manager/sponsor must remain involved until all funds disbursed.
34. Dispute resolution for exit/winding matters detailed in legal docs.
35. SEBI can order fund suspension or liquidation for serious violations.
36. Investor protection during liquidation monitored by Trustees.
37. Special provisions for foreign investor repatriation and currency controls.
38. KYC, AML, and compliance closures to be done for all investors at exit.
39. Ongoing audit/inspection possible during winding up.
40. Post-exit reporting (tax, audit, regulator) required for a prescribed period.
41. Oversight for proper allocation of exit expenses.
42. Handling of unresolved or contingent litigation post-wind-up addressed.
43. Investor databases must be securely archived post-liquidation.
44. Regulatory filings for closure must be timely and compliant.

45. Surrender of licenses, accounts, and reporting to authorities at closure.
46. The fund's books to be open for inspection for several years post-exit.
47. Distribution of proceeds to follow waterfall and prioritization per PPM.
48. Provisions for missing/untraceable investors' entitlements.
49. Final auditor and compliance certifications required for closure.
50. Learning and feedback loop from monitoring/exits to improve future fund management.

## *CHAPTER 16: TAXATION*

1. AIFs enjoy pass-through status for most Category I and II income (except for business income); Category III AIFs are taxed at fund level.
2. Pass-through status means investors are taxed on their share of fund income; TDS applies on income distributed.
3. Business income in AIFs is taxed at the maximum marginal rate at AIF level.
4. Investments by non-residents attract withholding tax on interest/dividends per treaty rates.
5. Surcharge rates vary by investor type and are updated annually in the Finance Act.
6. Capital gains (short/long-term) taxed as per investor's status; specified rates for securities.
7. DDT (Dividend Distribution Tax) implications depend on instrument and period.
8. Set-off and carry forward of losses permitted per ITA for pass-through incomes.
9. Category III AIFs (such as hedge funds) are taxed like business trusts—fund level tax.
10. Taxation for foreign investors may depend on respective treaties and DTAA provisions.
11. Resident and NRI's tax treatment varies by residence, instrument, and currency.
12. TDS returns must be filed by AIFs and certificates issued to investors.
13. Lower withholding certificates achievable by certain foreign investors.
14. LLP/Trust Company structure impacts fund and investor tax directly.
15. Goods and Services Tax (GST) applicable on management/service provider fees.
16. Losses under pass-through cannot be carried forward by the AIF; individual investors may avail.
17. GAAR (General Anti-Avoidance Rules) enable authorities to disregard structures for tax avoidance.
18. MLI (Multilateral Instrument) overrides certain treaty benefits effective from India's ratification date.
19. Foreign investors must maintain TRC (Tax Residency Certificate) and file Form 10F.
20. FATCA and CRS impose reporting on fund managers for specified foreign investors.
21. MAT/AMT impact, if any, must be considered for Indian company investors.
22. AIFs must calculate and comply with advance tax provisions.
23. Filing of tax returns by the AIF is an annual requirement.
24. Trust-level tax treatment depends on determination clause in trust deed and scheme structure.
25. Realized gains are taxed on distribution; unrealized gains escape interim taxation under pass-through.
26. Special classes (e.g., REITs, InvITs) have unique taxation and reporting.
27. Tax treatment of distributions (dividend, interest, buyback) must be reflected correctly.
28. FOFD or feeder structures must navigate double taxation treaties carefully.
29. AMT and MAT are not applicable to non-corporate investors.
30. TDS on capital gains may not apply to listed securities in certain cases.
31. Details for set-off/carry-forward accurately captured in annual investor statements.
32. Exemption on enforcement may be available in select cases under ITA.
33. Tax efficiency is a major driver of fund structure choice for investors.
34. GST/VAT compliance on fees impacts net investor returns.
35. Stamp duty applies on issuance/transfer of AIF units and is collected by RTAs.
36. Fund of funds (FoF) structures must avoid cascading taxation.
37. WHT applies on payments to FPI investors, subject to rate adjustments per notification.
38. Double taxation relief is claimed under DTAA with eligible documentation.
39. Tax audits and disclosures must follow prescribed formats and deadlines.
40. Annual information reporting to tax authorities includes transaction and investor details.
41. Tax positions, disputes, and contingent liabilities must be disclosed in annual reports.

42. In-kind distributions (e.g., shares) may trigger capital gains recognition.
43. Surcharge rates and tax brackets are subject to frequent Finance Act amendments.
44. SEBI regularly updates AIF tax-related guidelines.
45. Integration of taxation and accounting policies must avoid mismatches.
46. Downward adjustments to NAV for taxes must be disclosed to investors.
47. Tax circulars and notifications affect practical fund operations annually.
48. Manager/advisor fee planning must consider disallowance/proposal on pass-through etc.
49. Legal and tax opinions are advisable for new fund launches.
50. Awareness of future tax regime changes critical for fund managers and investors.

## *CHAPTER 17: REGULATORY FRAMEWORK*

1. SEBI (Alternative Investment Funds) Regulations, 2012 are the main AIF legal framework.
2. Registration process includes eligibility evaluation of sponsor, manager, and AIF structure.
3. Sponsor/manager must be "fit and proper" as per regulatory standards.
4. SEBI requires minimum sponsor/manager commitments ("skin in the game").
5. Open-ended/close-ended definitions and rules vary by category; categories I/II are always closed-end.
6. Accredited investor frameworks provide additional flexibility for eligible investors.
7. "First close," "final close," and tenure limits are strictly governed.
8. Private placement (not public offer) is the permissible fundraising approach.
9. Minimum capital (₹20 crore per scheme) and investor minimum (₹1 crore) are mandatory.
10. Category-specific investment conditions (e.g., leverage limits, exposure caps) apply.
11. Category III AIFs face additional norms on leverage, risk, and reporting.
12. General obligations include record-keeping, inspections, disclosure, and fiduciary duty.
13. Code of conduct applies to all managers, sponsors, and trustees.
14. SEBI exercises inspection and enforcement powers over all AIFs and intermediaries.
15. Market surveillance and anti-fraud provisions are applicable to AIFs.
16. Exemptions in special or extraordinary cases are possible with SEBI approval.
17. Periodic reporting and disclosure to investors and SEBI are mandatory.
18. PPM updates require notification, and all changes must adhere to defined process.
19. KYC, client onboarding, and AML/CFT compliance are enforced rigorously.
20. Investment due diligence must be policy-driven and documented.
21. Foreign Exchange Management Act (FEMA) governs foreign investments via AIFs.
22. FDI regulations, LRS ceilings, and inbound investment channels apply to AIFs.
23. Outbound investments by AIFs must adhere to RBI and SEBI norms.
24. FATCA, OECD CRS, and other information-sharing regulations apply to global investors.
25. SEBI (PIT), SEBI (PFUTP), and other capital market regulations bind AIFs' operations.
26. Tax compliance must align with ITA, TDS, GST, and regular Indian tax provisions.
27. SEBI periodically issues clarifying circulars and amendments—managers must keep updated.
28. Delegation of management, removal, transfer, or dissolution requires SEBI notification/approval.
29. All AIF documentation must comply with regulatory disclosure standards.
30. Investor class limits, minimums, and qualification rules strictly enforced.
31. Reporting of major legal proceedings and MAE (material adverse events) is required.
32. Disaster recovery and business continuity compliance is mandatory.
33. Regulatory filings include NAV, holdings, capital calls, distributions, expenses, and investor data.
34. Compliance officer is legally responsible for adherence and reporting.
35. GIFT City/IFSC regulations offer additional requirements/opportunities for offshore/international funds.
36. Inspection and audit powers allow SEBI to review any AIF at any time.
37. Consent for licensure, manager/sponsor changes, or fund restructuring must be obtained as per rules.
38. Dispute resolution among investors, manager, or sponsors stipulated in AIF docs and SEBI rules.
39. Liquidation, winding up, and investor settlements are regulated and enforceable.
40. KYC, AML, and reporting obligations on all investors, managers, and service providers.
41. SEBI can bar or penalize defaulting managers/funds.
42. Sponsor/manager bans from regulatory authorities disqualify fund eligibility.

43. Disclosure of unitholder voting, amendments, waivers, exceptions in reporting.
44. Special FDI/FEMA and tax compliance for GIFT City and cross-border activity.
45. AIF compliance with IPO, FPI, Takeover Code, and other SEBI regulations as appropriate.
46. FATCA/CRS remittance and information requirements update regularly.
47. Managers must stay informed of new rules and amendments.
48. Market integrity, investor protection, and systemic risk monitoring are key SEBI objectives.
49. Failure to comply may result in fines, suspension, or fund wind-up.
50. Proactive engagement with SEBI and regular training helps ensure best-in-class compliance.

**IMPORTANT NOTE :**

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

**July 2025**

*All the Best ☺*

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94, 1st Floor, TPK Road, Andalpuram, Madurai – 625 003.

Email: akshayatraining@gmail.com

**WhatsApp only - 98949 49987**