Study Notes for NISM-Series-XIX-E: Category III Alternative Investment Fund Managers Certification Examination

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EXAMINATION DETAILS

Multiple Choice Questions [60 questions of 1 mark each]	60*1 = 60
Case-based Questions [4 cases (each case with 5 questions of 2 mark each)]	4*5*2 = 40

Total marks	**100 marks**
Duration	**2 hours**
Pass mark	**60 marks**
Negative marking	25 percent of the marks assigned to a question.

WEIGHTAGE

Chapter No.	Chapter Name	Marks Allocated
1	Investment Landscape	3
2	Types of Investments	
3	Introduction to Modern Portfolio Theory and Capital Market Theory	
4	AIFs in India & its Suitability	3
5	AIF Ecosystem	5
6	AIF Structuring	10
7	Fee Structure and Fund Performance	10
8	Indices and Benchmarking	4
9	Legal Documentations and Negotiations	8
10	Investment Strategies	12
11	Governance of Funds and Due Diligence	7
12	Valuation	10
13	Fund Monitoring, Reporting and Exit	10
14	Taxation	8
15	Regulatory Framework	10
Total Marks		**100**

NISM-Series-XIX-E: Category III Alternative Investment Fund Managers Certification Examination

CHAPTER 1: INVESTMENTS LANDSCAPE

Investment Landscape: The investment landscape includes various asset classes like equities, bonds, and alternatives, each with distinct risk-return profiles.

Investment Objectives: Investors aim for capital appreciation, income generation, or capital preservation, depending on their financial goals.

Risk and Return: Investments involve a trade-off between risk and return; higher potential returns typically come with higher risks.

Types of Risks: Key risks include market risk, credit risk, liquidity risk, and operational risk, impacting investment outcomes.

Market Risk: Arises from fluctuations in market prices, affecting the value of investments like stocks and bonds.

Credit Risk: The risk of loss due to a borrower's failure to repay a loan or meet contractual obligations.

Liquidity Risk: The risk of not being able to sell an investment quickly at its fair value due to lack of market demand.

Operational Risk: Stems from internal process failures, human errors, or external events affecting investment operations.

Market Participants: Include issuers, investors, intermediaries like brokers, and regulators who facilitate market operations.

Merchant Bankers: Act as intermediaries in securities issuance, providing advisory and underwriting services.

Securities Markets: Comprise primary markets for new issues and secondary markets for trading existing securities.

Primary Market: Where securities are issued directly by companies or entities to raise capital.

Secondary Market: Facilitates trading of already-issued securities, providing liquidity to investors.

Investment Vehicles: Include mutual funds, ETFs, and AIFs, offering diversified exposure to various asset classes.

Risk Premium: The additional return expected for taking on higher risk compared to risk-free investments.

Inflation Risk: The risk that inflation erodes the purchasing power of investment returns.

Currency Risk: Arises from changes in exchange rates, impacting returns on foreign investments.

Interest Rate Risk: Fluctuations in interest rates affect the value of fixed-income securities like bonds.

Regulatory Framework: Governed by SEBI and other authorities to ensure transparency and investor protection.

Financial Intermediaries: Brokers, custodians, and depositories facilitate smooth functioning of securities markets.

Market Liquidity: The ease of buying or selling an asset without significantly affecting its price.

Investment Horizon: The time period an investor plans to hold an investment, influencing risk tolerance.

Diversification: Spreading investments across asset classes to reduce risk.

Portfolio Management: Involves selecting and managing investments to meet specific objectives.

Equity Securities: Represent ownership in a company, offering potential for capital gains and dividends.

Debt Securities: Include bonds and debentures, providing fixed income but with credit risk.

Derivatives: Financial instruments whose value is derived from an underlying asset, used for hedging or speculation.

Mutual Funds: Pool investor money to invest in a diversified portfolio managed by professionals.

Exchange-Traded Funds (ETFs): Trade like stocks on exchanges, tracking indices or asset classes.

Alternative Investments: Include private equity, hedge funds, and real estate, often less liquid but with high return potential.

Market Efficiency: The degree to which asset prices reflect all available information.

Risk-Return Trade-off: Higher returns are associated with higher risks, guiding investment decisions.

Investment Goals: Vary by investor type, such as growth for young investors or income for retirees.

Market Makers: Provide liquidity by quoting bid and ask prices in the securities market.

Clearing Houses: Ensure settlement of trades, reducing counterparty risk in transactions.

Stock Exchanges: Platforms like NSE and BSE facilitate securities trading.

Regulatory Compliance: Mandatory adherence to SEBI regulations for market participants.

Investment Strategies: Active or passive strategies influence portfolio construction and performance.

Asset Allocation: Distributing investments across asset classes to optimize risk and return.

Liquidity Preference: Investors prefer assets that can be easily converted to cash with minimal loss.

Market Volatility: Fluctuations in asset prices, impacting investment stability.

Financial Markets: Enable capital flow between investors and issuers, supporting economic growth.

Risk Measurement: Tools like standard deviation and beta quantify investment risks.

Portfolio Diversification: Reduces unsystematic risk by investing in uncorrelated assets.

Investment Analysis: Involves evaluating securities based on fundamental and technical factors.

Securities Regulation: SEBI oversees issuance, trading, and investor protection in India's markets.

CHAPTER 2: TYPES OF INVESTMENTS

Traditional Investments: Include stocks, bonds, and cash, offering predictable returns and liquidity.

Alternative Investments: Encompass private equity, hedge funds, real estate, and commodities, with higher risk and return potential.

Dual Investments: Combine features of traditional and alternative investments, like convertible bonds.

Venture Capital: Investments in early-stage companies with high growth potential but significant risk.

Venture Debt: Loans provided to startups, often with equity components, to support growth.

Private Equity: Investments in unlisted companies, aiming for long-term capital appreciation.

Hedge Funds: Use diverse strategies like long-short to generate returns, often leveraging derivatives.

Real Estate: Investments in property, offering rental income and capital gains but with illiquidity risks.

Commodities: Include gold, silver, and oil, providing diversification and inflation hedging.

Mutual Funds: Pool investor funds to invest in diversified portfolios, managed by professionals.

ETFs: Track indices or assets, offering low-cost, liquid investment options traded on exchanges.

Derivatives: Contracts like futures and options, used for hedging or speculative purposes.

Fixed Income: Bonds and debentures provide regular interest payments with lower risk than equities.

Equity Investments: Stocks offer ownership and potential for high returns but with market volatility.

Gold Investments: Physical or paper gold serves as a safe-haven asset and inflation hedge.

Infrastructure Investments: Involve projects like roads and power plants, offering stable returns.

Private Debt: Loans to private entities, providing higher yields than traditional bonds.

Hedge Fund Strategies: Include long-short, arbitrage, and global macro, aiming for absolute returns.

Liquidity Characteristics: Alternative investments are less liquid compared to traditional assets.

Risk Diversification: Alternative investments reduce portfolio risk through low correlation with stocks.

Venture Capital Stages: Include seed, early-stage, and growth funding, each with varying risks.

Private Equity Exits: Common exit strategies include IPOs, mergers, or sales to other firms.

Commodity Markets: Facilitate trading in physical or derivative forms of commodities.

Investment Returns: Alternative investments often target higher returns than traditional assets.

Regulatory Oversight: SEBI regulates alternative investments to ensure transparency.

Fund Structures: AIFs can be trusts, LLPs, or companies, impacting governance and taxation.

Leverage in Investments: Used in hedge funds to amplify returns, increasing risk exposure.

Illiquidity Premium: Higher returns expected for less liquid alternative investments.

Portfolio Fit: Alternative investments suit high-net-worth individuals with long-term horizons.

Risk Profiles: Alternative investments have unique risks like valuation and regulatory risks.

Investment Horizon: Longer horizons are typical for private equity and real estate.

Tax Implications: Vary based on investment type, affecting net returns.

Market Access: Alternative investments often require accredited or institutional investors.

Due Diligence: Critical for assessing alternative investments due to complexity and risk.

Fund Management: Professional management is key in navigating alternative investment complexities.

Global Exposure: Alternative investments provide access to international markets.

Commodity Derivatives: Allow investors to gain exposure without physical ownership.

Private Equity Returns: Driven by operational improvements and strategic exits.

Hedge Fund Fees: Include management and performance fees, impacting net returns.

Real Estate Valuation: Based on rental yields, location, and market conditions.

Investment Constraints: Regulatory limits on leverage and concentration for AIFs.

Market Trends: Growing interest in ESG-focused alternative investments.

Risk-Return Balance: Alternative investments offer high returns but require risk tolerance.

Portfolio Diversification: Including alternatives reduces overall portfolio volatility.

Investment Documentation: Detailed agreements govern alternative investment structures.

CHAPTER 3: INTRODUCTION TO MODERN PORTFOLIO THEORY

Modern Portfolio Theory (MPT): Framework for optimizing portfolio risk and return through diversification.

Expected Return: Weighted average of individual asset returns in a portfolio.

Portfolio Risk: Measured by variance or standard deviation, accounting for asset correlations.

Diversification: Reduces unsystematic risk by combining assets with low or negative correlations.

Efficient Frontier: Set of portfolios offering maximum return for a given level of risk.

Risk-Free Rate: Return on assets like government bonds, assumed to have zero default risk.

Capital Market Line (CML): Represents portfolios combining risk-free assets and the market portfolio.

Market Portfolio: Hypothetical portfolio containing all investable assets, optimally diversified.

Beta: Measures an asset's sensitivity to market movements, indicating systematic risk.

Covariance: Quantifies how two assets' returns move together, critical for diversification.

Variance: Measures the dispersion of an asset's returns, indicating risk level.

Standard Deviation: Square root of variance, used as a primary risk metric.

Correlation Coefficient: Ranges from -1 to +1, showing the strength of asset return relationships.

Portfolio Optimization: Selecting asset weights to minimize risk for a target return.

Capital Asset Pricing Model (CAPM): Relates expected return to beta and market risk premium.

Risk Premium: Excess return over the risk-free rate for bearing market risk.

Systematic Risk: Market-wide risk that cannot be diversified away, measured by beta.

Unsystematic Risk: Asset-specific risk reduced through diversification.

Sharpe Ratio: Measures risk-adjusted return by dividing excess return by standard deviation.

Treynor Ratio: Evaluates return per unit of systematic risk, using beta.

Portfolio Weights: Allocation of capital to assets, impacting risk and return.

Efficient Portfolios: Offer the highest return for a given risk level on the efficient frontier.

Risk Aversion: Investors prefer lower risk for the same return, shaping portfolio choices.

Expected Utility: Investors maximize expected utility, balancing risk and return preferences.

Estimation Issues: Accurate estimation of returns, variances, and covariances is critical for MPT.

Capital Market Theory: Extends MPT by incorporating risk-free assets and market portfolio.

Security Market Line (SML): Plots expected return against beta, showing equilibrium pricing.

Overvalued Assets: Assets with returns below the SML, indicating poor risk-adjusted performance.

Undervalued Assets: Assets with returns above the SML, offering better risk-adjusted returns.

Portfolio Variance: Calculated using asset weights, variances, and covariances.

Risk-Return Trade-off: Higher expected returns require accepting higher portfolio risk.

Asset Allocation: Strategic distribution of capital across asset classes for optimal performance.

Markowitz Model: Foundation of MPT, emphasizing diversification to reduce risk.

Risk Measurement: Uses statistical tools like variance and covariance for portfolio analysis.

Investment Decisions: Based on balancing expected returns with acceptable risk levels.

Portfolio Construction: Involves selecting assets to achieve specific risk-return objectives.

Market Efficiency: Assumes prices reflect all available information, impacting MPT assumptions.

Risk-Free Borrowing: Allows investors to leverage portfolios at the risk-free rate.

Lending at Risk-Free Rate: Combining risk-free assets with risky portfolios to reduce risk.

Equilibrium Pricing: CAPM assumes markets are in equilibrium, with assets priced per risk.

Portfolio Performance: Evaluated using metrics like Sharpe and Treynor ratios.

Historical Data: Used to estimate expected returns and risks for portfolio construction.

Risk Tolerance: Varies by investor, influencing portfolio composition and strategy.

Diversifiable Risk: Eliminated through a well-diversified portfolio, leaving only systematic risk.

Investment Constraints: Regulatory and liquidity constraints affect portfolio optimization.

CHAPTER 4: AIFS IN INDIA & ITS SUITABILITY

Alternative Investment Funds (AIFs): Pooled investment vehicles regulated by SEBI, investing in alternative assets.

Category III AIFs: Engage in diverse strategies, including leverage and derivatives, for high returns.

Category I AIFs: Focus on startups, SMEs, and social ventures, with incentives from the government.

Category II AIFs: Include private equity and debt funds, not using leverage extensively.

Hedge Funds: Category III AIFs using long-short, arbitrage, or other strategies for absolute returns.

SEBI Regulations: Govern AIF operations, ensuring transparency and investor protection.

Investment Restrictions: Category III AIFs face leverage and concentration limits.

Open-Ended Funds: Allow continuous investment and redemption, common in Category III.

Close-Ended Funds: Have fixed tenure, typical for Category I and II AIFs.

Angel Funds: Sub-category of Category I, investing in early-stage startups.

Social Impact Funds: Category I AIFs focusing on social ventures with measurable impact.

Private Equity Funds: Category II AIFs investing in unlisted companies for long-term gains.

Leverage Limits: Category III AIFs can use leverage up to twice the NAV, per SEBI rules.

Investor Eligibility: AIFs target high-net-worth individuals and institutional investors.

Portfolio Management Services (PMS): Differ from AIFs in structure, offering personalized portfolios.

Mutual Funds vs. AIFs: AIFs offer higher flexibility but with greater risk and illiquidity.

Accredited Investors: Can access specialized AIF schemes with relaxed regulations.

Risk Profiles: Category III AIFs have higher risk due to leverage and complex strategies.

Fund Structures: AIFs can be trusts, LLPs, or companies, impacting governance and taxation.

Investment Objectives: Vary by AIF category, from growth to income generation.

Regulatory Compliance: Mandatory adherence to SEBI (AIF) Regulations, 2012.

Concentration Limits: Restrict excessive exposure to single investments for risk management.

Hedge Fund Strategies: Include long-short, market-neutral, and arbitrage for risk-adjusted returns.

Liquidity Constraints: Category III AIFs may face redemption restrictions due to illiquid assets.

Taxation: Pass-through status for Category I and II AIFs, but Category III taxed at fund level.

Fund Managers: Responsible for investment decisions and compliance with SEBI regulations.

Custodians: Ensure safekeeping of AIF assets, mandatory for Category III funds.

Disclosure Requirements: AIFs must provide periodic reports to investors and SEBI.

Investment Diversification: Category III AIFs diversify across asset classes to manage risk.

Fund Performance: Measured against benchmarks like NIFTY 50 for Category III AIFs.

Risk Management: Involves monitoring leverage, liquidity, and market risks.

Investor Protection: SEBI mandates transparency in fees, risks, and performance reporting.

Fund Registration: AIFs must register with SEBI, specifying category and strategy.

Private Placement Memorandum (PPM): Outlines fund objectives, risks, and terms for investors.

Investment Limits: Minimum investment of INR 1 crore, relaxed for accredited investors.

Foreign Investments: Subject to FEMA and RBI regulations for offshore AIFs.

Fund Tenure: Close-ended AIFs have fixed tenures, while open-ended have no specific tenure.

Valuation Norms: SEBI mandates periodic valuation of AIF investments for transparency.

Risk Disclosure: PPM must detail all material risks associated with the fund.

Fund Governance: Involves oversight by trustees, managers, and investment committees.

Investor Suitability: AIFs assess investor risk appetite and financial goals before investment.

Benchmarking: Performance compared to indices like S&P BSE Sensex or NIFTY 50.

Co-Investments: Allowed alongside AIFs, subject to SEBI approval and disclosures.

Fund Expenses: Include management fees, setup costs, and operational expenses.

Regulatory Updates: SEBI amendments (e.g., 2021, 2023) refine AIF operations and compliance.

CHAPTER 5: AIF ECOSYSTEM

AIF Ecosystem: Comprises sponsors, managers, investors, custodians, and regulators.

Sponsors: Provide initial capital and ensure fund credibility, often contributing 2.5% of corpus.

Fund Managers: Make investment decisions, adhering to SEBI regulations and fund objectives.

Investors: Include HNIs, institutions, and foreign entities, with minimum investment thresholds.

Custodians: Safeguard AIF assets, mandatory for Category III funds under SEBI rules.

SEBI Regulations: Enforce governance, transparency, and investor protection in AIFs.

Investment Advisors: Provide guidance on portfolio allocation, often for offshore funds.

Capital Calls: Drawdowns from investor commitments to fund investments as needed.

Management Fees: Typically 1-2% of AUM, covering fund operational costs.

Performance Fees: Incentive fees (e.g., 20% of profits) for exceeding hurdle rates.

Hurdle Rate: Minimum return threshold before performance fees are charged.

ESG Integration: Environmental, Social, and Governance factors influence AIF strategies.

Stewardship Code: SEBI mandates AIFs to engage actively with investee companies.

Green Shoe Option: Allows oversubscription of fund units, subject to SEBI approval.

Redemption Policies: Defined in PPM, varying by fund type (open or close-ended).

Setup Costs: Include legal, regulatory, and operational expenses for launching an AIF.

Operational Expenses: Cover ongoing costs like audits, valuations, and compliance.

Co-Investments: Investors can co-invest alongside the fund, subject to SEBI rules.

Conflict of Interest: AIFs must address conflicts through policies and disclosures.

Fund Documentation: PPM, trust deeds, and agreements outline fund operations.

Investor Reporting: Periodic disclosures on performance, risks, and fees to investors.

Regulatory Compliance: Adherence to SEBI, FEMA, and RBI regulations for AIF operations.

Accredited Investors: Eligible for relaxed investment limits and specialized schemes.

Fund Governance: Involves trustees, investment committees, and compliance officers.

Risk Management: AIFs monitor market, liquidity, and operational risks.

Valuation Norms: Independent valuation of assets ensures fair NAV reporting.

Foreign Investors: Subject to FEMA and RBI guidelines for investing in Indian AIFs.

Crowdfunding: Not permitted for AIFs, distinct from regulated fund structures.

Fund Performance: Measured using metrics like IRR, TVPI, and risk-adjusted returns.

Distribution Agreements: Govern relationships with distributors for fund marketing.

Due Diligence: Conducted on sponsors, managers, and investments to mitigate risks.

Fund Structure: Can be trusts, LLPs, or companies, impacting taxation and governance.

Investment Restrictions: SEBI limits leverage and concentration for risk control.

Transparency: Mandatory disclosures ensure investor awareness of risks and fees.

Fund Monitoring: Ongoing oversight of investments and compliance with regulations.

Exit Strategies: Include IPOs, sales, or mergers, critical for realizing returns.

Tax Implications: Vary by fund category, with pass-through for Category I and II.

Regulatory Updates: SEBI circulars (e.g., 2021, 2023) refine AIF compliance requirements.

Investor Protection: SEBI mandates fair treatment and grievance redressal mechanisms.

Fund Closure: Close-ended AIFs have defined liquidation periods for exits.

Portfolio Management: AIF managers optimize investments to meet fund objectives.

Risk Disclosure: Detailed in PPM, covering market, liquidity, and operational risks.

Fund Audits: Mandatory to ensure financial accuracy and regulatory compliance.

Investment Strategy: Tailored to fund category, influencing risk and return profiles.

Global Exposure: AIFs provide access to international markets, subject to regulations.

CHAPTER 6: AIF STRUCTURING

AIF Structure: Typically set up as trusts, LLPs, or companies, impacting governance.

Trust Structure: Common for AIFs, with trustees overseeing investor interests.

LLP Structure: Offers flexibility in management and tax benefits for AIFs.

Company Structure: Less common, used for specific regulatory or operational needs.

SEBI Regulations: Mandate registration and compliance for all AIF structures.

Sponsors: Contribute initial capital and ensure fund credibility, per SEBI rules.

Fund Managers: Responsible for investment decisions and regulatory adherence.

Investment Committee: Oversees strategy and ensures alignment with fund objectives.

Custodians: Mandatory for Category III AIFs to safeguard assets.

Private Placement Memorandum (PPM): Outlines fund terms, risks, and objectives.

Contribution Agreement: Governs investor commitments and capital calls.

Trust Deed: Legal document defining the trust structure and obligations.

Onshore Funds: Registered with SEBI, subject to Indian regulatory framework.

Offshore Funds: Invest in Indian AIFs through FEMA-compliant routes.

Master-Feeder Structure: Offshore feeder funds invest in an onshore master fund.

Parallel Structure: Separate funds for domestic and foreign investors with similar strategies.

Fund Setup Costs: Include legal, regulatory, and operational expenses.

Capital Calls: Drawdowns from investor commitments to fund investments.

Investor Eligibility: Minimum investment of INR 1 crore, relaxed for accredited investors.

Regulatory Compliance: Adherence to SEBI (AIF) Regulations, 2012, is mandatory.

Fund Governance: Involves trustees, managers, and investment committees.

Tax Implications: Vary by structure, with trusts offering pass-through for some AIFs.

Investor Protection: SEBI mandates transparency and grievance redressal.

Fund Tenure: Close-ended AIFs have fixed tenures, while open-ended have flexibility.

Leverage Limits: Category III AIFs restricted to 2x NAV leverage by SEBI.

Valuation Norms: Periodic valuation of assets for accurate NAV reporting.

Risk Management: Involves monitoring market, liquidity, and operational risks.

Fund Documentation: Includes PPM, trust deeds, and contribution agreements.

Exit Strategies: Defined in PPM, including IPOs, sales, or mergers.

Foreign Investments: Subject to FEMA and RBI regulations for offshore investors.

Co-Investments: Allowed alongside AIFs, with SEBI approval and disclosures.

Fund Performance: Measured using IRR, TVPI, and risk-adjusted metrics.

Disclosure Requirements: Periodic reporting to investors and SEBI on performance.

Investment Restrictions: SEBI limits on leverage and concentration for risk control.

Fund Audits: Mandatory to ensure financial accuracy and compliance.

Investor Reporting: Detailed disclosures on fees, risks, and performance.

Regulatory Updates: SEBI amendments (e.g., 2021, 2023) refine AIF operations.

Accredited Investors: Eligible for specialized schemes with relaxed regulations.

Fund Closure: Close-ended AIFs have defined liquidation periods.

Risk Disclosure: PPM details all material risks associated with the fund.

Portfolio Management: Managers optimize investments to meet fund objectives.

Due Diligence: Conducted on investments, sponsors, and managers to mitigate risks.

Fund Registration: Mandatory with SEBI, specifying category and strategy.

Investor Suitability: AIFs assess investor risk appetite and financial goals.

Global Exposure: AIFs provide access to international markets, subject to regulations.

CHAPTER 7: FEE STRUCTURE AND FUND PERFORMANCE

Management Fees: Typically 1-2% of AUM, covering operational costs of the fund.

Performance Fees: Incentive fees (e.g., 20% of profits) charged after exceeding hurdle rates.

Hurdle Rate: Minimum return threshold before performance fees are applied.

Catch-Up Rate: Ensures managers receive a share of profits after hurdle rate is met.

Gross vs. Net Returns: Gross returns exclude expenses; net returns reflect all costs.

Fund Expenses: Include setup, operational, and transaction costs borne by the fund.

Carried Interest: Share of profits paid to managers, typically 20% above hurdle rate.

NAV Calculation: Net Asset Value reflects total assets minus liabilities, used for performance.

IRR (Internal Rate of Return): Measures fund performance, accounting for cash flows.

TVPI (Total Value to Paid-In): Ratio of total value to invested capital, evaluating returns.

DPI (Distributed to Paid-In): Measures cash distributions relative to invested capital.

RVPI (Residual Value to Paid-In): Reflects unrealized value relative to invested capital.

Sharpe Ratio: Measures risk-adjusted return by dividing excess return by standard deviation.

Treynor Ratio: Evaluates return per unit of systematic risk, using beta.

Maximum Drawdown: Largest peak-to-trough decline in fund value, indicating risk.

Risk Metrics: Include volatility, beta, and drawdown to assess fund performance.

Fund Performance: Evaluated using IRR, multiples, and risk-adjusted metrics.

Fee Structures: Vary by fund, impacting net returns to investors.

High Water Mark: Ensures performance fees are charged only on new profits.

Clawback Clause: Requires managers to return excess fees if losses occur later.

Fund Valuation: Periodic NAV updates reflect current asset values.

Risk Management: Involves monitoring leverage, liquidity, and market risks.

Investor Reporting: Detailed disclosures on fees, performance, and risks.

Tax Implications: Fees and returns impact post-tax returns for investors.

Fund Audits: Mandatory to ensure accurate fee and performance reporting.

Regulatory Compliance: SEBI mandates transparency in fee structures.

Portfolio Management: Managers optimize investments to maximize returns.

Investment Strategy: Influences fee structures and performance outcomes.

Liquidity Risk: Impacts ability to meet redemption requests in open-ended funds.

Geo-Political Risks: External factors affecting fund performance and stability.

Foreign Exchange Risk: Impacts returns on international investments.

Reputational Risk: Negative actions by managers can erode investor confidence.

Fund Governance: Ensures fair fee allocation and performance reporting.

Investor Protection: SEBI mandates clear disclosure of fees and risks.

Performance Benchmarking: Compared to indices like NIFTY 50 for evaluation.

Volatility: Measured by standard deviation, indicating return fluctuations.

Skewness: Measures asymmetry in return distribution, impacting risk assessment.

Kurtosis: Evaluates the likelihood of extreme returns, indicating tail risk.

Fund Closure: Performance metrics guide decisions during liquidation.

Regulatory Updates: SEBI circulars (e.g., 2020, 2024) refine fee disclosures.

Co-Investments: May involve separate fee structures, subject to SEBI rules.

Fund Monitoring: Ongoing oversight of performance and risk metrics.

Investment Horizon: Influences fee structures and performance expectations.

Risk-Adjusted Returns: Key for evaluating Category III AIF performance.

Global Exposure: Impacts performance due to currency and market risks.

CHAPTER 8: INDICES AND BENCHMARKING

Indices: Track market or sector performance, used as benchmarks for AIFs.

Price-Weighted Index: Weights stocks by price, e.g., Dow Jones Industrial Average.

Market-Cap Weighted Index: Weights stocks by market capitalization, e.g., NIFTY 50.

Equal-Weighted Index: Assigns equal weight to all constituents, reducing concentration risk.

Total Return Index: Includes price changes and reinvested dividends, e.g., NIFTY 50 TR.

Benchmarking: Compares AIF performance to relevant indices like S&P BSE Sensex.

NIFTY 50: Broad-based index of 50 large-cap Indian stocks, widely used for benchmarking.

S&P BSE Sensex: Tracks 30 major Indian companies, a key performance benchmark.

Sectoral Indices: Focus on specific sectors like S&P BSE Auto or Realty.

Bond Indices: Measure fixed-income market performance, e.g., NIFTY A Bond Indices.

T-Bill Indices: Track short-term government securities, used for low-risk benchmarks.

Index Construction: Involves selecting constituents and weighting methodologies.

Rebalancing: Periodic adjustment of index constituents to reflect market changes.

Free-Float Market Cap: Uses only publicly tradable shares for index weighting.

Performance Benchmarking: Critical for evaluating AIF risk-adjusted returns.

Index Eligibility: Stocks must meet liquidity and market cap criteria for inclusion.

Dividend Reinvestment: Total return indices account for dividends, unlike price indices.

Market Dynamics: Indices reflect economic trends, guiding AIF strategies.

Benchmark Selection: Must align with AIF's investment strategy and asset class.

Regulatory Compliance: SEBI mandates benchmarking for performance transparency.

Index Providers: NSE and BSE provide key indices for Indian markets.

Global Indices: Used for AIFs with international exposure, e.g., NIFTY 50 USD.

Risk-Adjusted Returns: Benchmarked using metrics like Sharpe and Treynor ratios.

Index Tracking: ETFs and passive funds aim to replicate benchmark performance.

Market Representation: Indices represent broad or sector-specific market trends.

Liquidity Criteria: Stocks in indices must meet minimum trading volume requirements.

Index Reconstitution: Periodic addition or removal of stocks based on eligibility.

Performance Metrics: Include alpha, beta, and tracking error for benchmark comparison.

Fund Performance: Measured against indices to assess manager skill (alpha).

Volatility: Indices help gauge market volatility for risk management.

Investment Strategy: Benchmarks guide strategy alignment and performance goals.

Regulatory Updates: SEBI circulars (e.g., 2024) refine benchmarking requirements.

Fund Reporting: Performance reports must compare returns to benchmarks.

Investor Transparency: Benchmarks provide clarity on fund performance.

Market Trends: Indices reflect economic and sector-specific trends.

Passive Investing: Involves replicating index performance with low-cost funds.

Active Management: Aims to outperform benchmarks through strategic decisions.

Risk Management: Benchmarks help assess risk exposure relative to markets.

Index Weighting: Impacts performance; market-cap weighting is most common.

Sector Exposure: Sectoral indices guide investments in specific industries.

Global Benchmarks: Used for AIFs with international or currency-linked strategies.

Fund Evaluation: Benchmarks ensure objective assessment of fund performance.

Tracking Error: Measures deviation of fund returns from benchmark returns.

Index Methodology: Transparent rules govern index construction and maintenance.

Regulatory Oversight: SEBI ensures indices meet standards for benchmarking.

CHAPTER 9: LEGAL DOCUMENTATION AND NEGOTIATIONS

Private Placement Memorandum (PPM): Outlines fund objectives, risks, fees, and terms.

Trust Deed: Legal document defining the trust structure and obligations of AIFs.

Contribution Agreement: Governs investor commitments and capital calls.

Distribution Agreement: Defines terms for fund marketing and investor onboarding.

Merchant Banker Agreement: Outlines roles like advisory and compliance for fund setup.

SEBI Regulations: Mandate detailed documentation for transparency and compliance.

Fund Governance: PPM and agreements ensure alignment with investor interests.

Risk Disclosure: PPM must detail all material risks, including market and operational.

Investor Rights: Include redemption, voting, and information rights in agreements.

Conflict of Interest: Addressed through policies and disclosures in documentation.

Side Letters: Provide specific terms for certain investors, subject to SEBI approval.

Regulatory Compliance: Documentation must adhere to SEBI (AIF) Regulations, 2012.

Fund Setup: Requires trust deed, PPM, and agreements with custodians and managers.

Investor Suitability: Documentation assesses investor risk appetite and goals.

Fee Structures: Detailed in PPM, including management and performance fees.

Exit Strategies: PPM outlines options like IPOs, sales, or mergers for fund closure.

Valuation Norms: Documentation specifies periodic valuation for NAV reporting.

Fund Audits: Mandatory to ensure accuracy of financial and operational reports.

Investor Reporting: PPM mandates periodic disclosures on performance and risks.

Tax Implications: Documentation clarifies tax treatment for investors and funds.

Fund Structure: Trust, LLP, or company structure impacts legal agreements.

Co-Investments: Governed by separate agreements, subject to SEBI rules.

Regulatory Updates: SEBI circulars (e.g., 2021, 2023) refine documentation requirements.

Due Diligence: Conducted on sponsors, managers, and investments, detailed in PPM.

Investment Restrictions: PPM specifies leverage and concentration limits.

Fund Tenure: Close-ended AIFs have fixed tenures defined in documentation.

Custodian Role: Agreements ensure safekeeping of fund assets.

Sponsor Obligations: Include capital contribution and ensuring fund credibility.

Manager Responsibilities: Investment decisions and compliance with SEBI rules.

Investor Protection: Documentation ensures fair treatment and grievance redressal.

Negotiation Process: Involves aligning investor and manager interests in agreements.

Fund Performance: PPM details metrics like IRR and TVPI for evaluation.

Risk Management: Documentation includes policies for monitoring risks.

Foreign Investors: Agreements comply with FEMA and RBI regulations.

Accredited Investors: Documentation allows relaxed terms for eligible investors.

Fund Closure: PPM outlines liquidation processes for close-ended funds.

Transparency: Mandatory disclosures ensure investor awareness of terms.

Legal Framework: Governed by Indian Trusts Act, LLP Act, or Companies Act.

Investment Strategy: PPM aligns strategy with fund objectives and regulations.

Grievance Redressal: Agreements include mechanisms for resolving disputes.

Fund Monitoring: Documentation mandates ongoing oversight of investments.

Valuation Policies: PPM specifies methods for fair asset valuation.

Regulatory Filings: PPM and agreements must be filed with SEBI for approval.

Investor Commitments: Contribution agreements detail capital call schedules.

Fund Expenses: PPM outlines setup, operational, and transaction costs.

CHAPTER 10: INVESTMENT STRATEGIES

Long-Short Strategy: Involves buying undervalued and selling overvalued securities to capture price differences.

Market-Neutral Strategy: Balances long and short positions to minimize market risk.

Arbitrage Strategy: Exploits price inefficiencies between related assets for profit.

Global Macro Strategy: Bets on macroeconomic trends across markets and asset classes.

Event-Driven Strategy: Capitalizes on corporate events like mergers or restructurings.

Merger Arbitrage: Profits from price gaps during merger or acquisition announcements.

Convertible Arbitrage: Involves buying convertible bonds and shorting underlying equities.

Distressed Debt: Invests in securities of financially troubled companies for potential gains.

Pre-IPO Investments: Targets companies before public offerings for high returns.

Activist Funds: Engage with management to influence company strategy and value.

Leverage: Used in Category III AIFs to amplify returns, subject to SEBI limits.

Derivatives Trading: Involves futures, options, and swaps for hedging or speculation.

Equity Investments: Focus on listed or unlisted stocks for capital appreciation.

Fixed Income Strategies: Include bonds and debt instruments for stable returns.

Commodity Derivatives: Used for exposure to commodities like gold or oil.

Risk Management: Involves monitoring market, liquidity, and leverage risks.

Investment Analysis: Uses historical data and financial metrics to select assets.

Portfolio Diversification: Reduces risk by spreading investments across strategies.

Fund Performance: Measured using IRR, TVPI, and risk-adjusted metrics.

Regulatory Compliance: SEBI regulates Category III AIF strategies and leverage.

Market Volatility: Strategies like market-neutral aim to mitigate volatility risks.

Liquidity Constraints: Some strategies involve illiquid assets, impacting redemptions.

Investment Horizon: Varies by strategy, with pre-IPO and distressed debt being long-term.

Tax Implications: Strategy impacts tax treatment of gains (capital or business income).

Fund Governance: Ensures strategies align with fund objectives and investor interests.

Due Diligence: Critical for assessing target companies in event-driven strategies.

Valuation Norms: Strategies require periodic valuation for accurate NAV reporting.

Investor Suitability: Strategies match investor risk appetite and goals.

Fund Expenses: Vary by strategy, with derivatives trading incurring higher costs.

Regulatory Updates: SEBI circulars (e.g., 2024) refine strategy implementation rules.

Portfolio Management: Managers optimize strategies to maximize risk-adjusted returns.

Risk-Adjusted Returns: Key for evaluating strategy effectiveness.

Benchmarking: Strategies compared to indices like NIFTY 50 for performance.

Co-Investments: Allowed alongside strategies, subject to SEBI approval.

Fund Audits: Ensure accurate reporting of strategy-driven performance.

Investor Reporting: Discloses strategy performance, risks, and fees.

Global Exposure: Strategies like global macro provide international market access.

Market Timing: Critical in arbitrage and event-driven strategies for profitability.

Hedging: Uses derivatives to mitigate downside risks in volatile markets.

Fund Structure: Impacts strategy implementation, e.g., leverage in Category III.

Exit Strategies: Include IPOs, sales, or mergers, tailored to investment type.

Investment Restrictions: SEBI limits on leverage and concentration apply.

Fund Monitoring: Ongoing oversight ensures strategy alignment with objectives.

Transparency: Strategies and risks disclosed in PPM for investor clarity.

Investor Protection: SEBI mandates fair treatment and risk disclosure.

CHAPTER 11: GOVERNANCE OF FUNDS AND DUE DILIGENCE

Fund Governance: Involves trustees, managers, and investment committees for oversight.

Investment Committee: Approves strategies and ensures alignment with fund objectives.

Due Diligence: Assesses sponsors, managers, and investments to mitigate risks.

Conflict of Interest: Addressed through policies and disclosures to ensure fairness.

SEBI Regulations: Mandate robust governance and due diligence for AIFs.

Trustees: Oversee fund operations to protect investor interests.

Fund Managers: Responsible for investment decisions and compliance.

Investor Protection: Governance ensures fair treatment and transparency.

Regulatory Compliance: Adherence to SEBI (AIF) Regulations, 2012, is mandatory.

Risk Management: Governance includes monitoring market and operational risks.

Valuation Norms: Independent valuation ensures accurate NAV reporting.

Fund Audits: Mandatory to verify financial and operational accuracy.

Investor Reporting: Periodic disclosures on performance, risks, and fees.

Definitive Agreements: Include PPM, trust deeds, and contribution agreements.

Term Sheets: Outline key investment terms before final agreements.

Legal Documentation: Governs fund structure, operations, and investor rights.

Grievance Redressal: SEBI mandates mechanisms for resolving investor disputes.

Investment Restrictions: Governance ensures compliance with leverage and concentration limits.

Fund Structure: Trust, LLP, or company impacts governance framework.

Sponsor Obligations: Include capital contribution and ensuring fund credibility.

Manager Responsibilities: Include strategy execution and regulatory adherence.

Co-Investments: Governed by agreements, subject to SEBI approval.

Fund Performance: Governance ensures accurate reporting of metrics like IRR.

Tax Implications: Governance considers tax treatment for investors and funds.

Regulatory Updates: SEBI circulars (e.g., 2021, 2023) refine governance rules.

Investor Suitability: Governance assesses investor risk appetite and goals.

Fund Closure: Governance oversees liquidation processes for close-ended funds.

Transparency: Mandatory disclosures ensure investor awareness of governance.

Due Diligence Process: Includes financial, legal, and operational checks on investments.

Risk Disclosure: Governance ensures all material risks are detailed in PPM.

Fund Monitoring: Ongoing oversight of investments and compliance.

Custodian Role: Ensures safekeeping of assets, mandatory for Category III AIFs.

Investment Strategy: Governance aligns strategies with fund objectives.

Exit Strategies: Governance oversees exits like IPOs, sales, or mergers.

Foreign Investors: Governance complies with FEMA and RBI regulations.

Accredited Investors: Governance allows relaxed terms for eligible investors.

Fund Setup: Governance ensures compliance with setup requirements.

Portfolio Management: Managers optimize investments under governance oversight.

Regulatory Filings: Governance ensures timely filings with SEBI.

Investor Rights: Include voting, redemption, and information rights.

Fund Expenses: Governance ensures fair allocation of setup and operational costs.

Valuation Policies: Governance mandates consistent valuation methods.

Conflict Resolution: Governance includes mechanisms for addressing disputes.

Regulatory Oversight: SEBI ensures governance meets investor protection standards.

Fund Documentation: Includes PPM and agreements for transparency and compliance.

CHAPTER 12: VALUATION

Valuation Basics: Determines fair value of AIF assets for NAV reporting.

NAV Calculation: Total assets minus liabilities, divided by number of units.

Discounted Cash Flow (DCF): Values assets based on projected future cash flows.

EBITDA Multiple: Uses earnings multiples to estimate enterprise value.

Enterprise Value (EV): Market value of equity plus debt, minus cash.

Equity Value: Derived from EV by subtracting net debt.

Fair Market Value: Value of assets based on market conditions and valuation norms.

SEBI Valuation Norms: Mandate periodic valuation by independent valuers.

Unlisted Securities: Valued using DCF, multiples, or other approved methods.

Liquid Securities: Valued at market prices or last traded prices.

Derivatives Valuation: Based on mark-to-market or model-based approaches.

Fund Expenses: Impact NAV, allocated pro-rata across unit classes.

Valuation Day: Specific date for calculating NAV, per fund policy.

Regulatory Compliance: SEBI requires consistent and transparent valuation.

Portfolio Valuation: Involves valuing all assets, including illiquid ones.

Risk Management: Valuation ensures accurate risk assessment of assets.

Investor Reporting: NAV reported periodically to reflect fund performance.

Fund Audits: Verify valuation accuracy and compliance with SEBI rules.

Tax Implications: Valuation impacts tax calculations for gains and distributions.

Investment Strategy: Valuation aligns with strategy for accurate performance tracking.

Illiquid Assets: Require specialized valuation methods due to lack of market prices.

Valuation Policies: Detailed in PPM for consistency and transparency.

Independent Valuers: Appointed to ensure unbiased asset valuation.

Market Conditions: Influence valuation, especially for unlisted securities.

Fund Performance: NAV reflects performance, guiding investor decisions.

Regulatory Updates: SEBI circulars (e.g., 2024) refine valuation requirements.

Leverage Impact: Valuation considers leverage effects on asset values.

Co-Investments: Valued separately, subject to SEBI guidelines.

Fund Governance: Oversees valuation to ensure fairness and accuracy.

Investor Protection: Transparent valuation protects investor interests.

Valuation Methods: Include DCF, comparables, and market-based approaches.

Asset Classes: Different valuation methods apply to equities, debt, and derivatives.

Fund Closure: Valuation critical during liquidation for fair distribution.

Transparency: Valuation reports ensure investor awareness of asset values.

Due Diligence: Valuation includes checks on underlying asset quality.

Regulatory Filings: Valuation reports submitted to SEBI for compliance.

Fund Monitoring: Ongoing valuation ensures accurate performance tracking.

Market Volatility: Impacts valuation of liquid and derivative assets.

Valuation Frequency: Typically quarterly or as specified in PPM.

Accounting Standards: Valuation follows ICAI or other recognized standards.

NAV per Unit: Calculated separately for each unit class in the fund.

Valuation Challenges: Illiquid assets pose difficulties in determining fair value.

Fund Structure: Impacts valuation, with trusts requiring specific methods.

Investor Suitability: Valuation informs investors of risk and return profiles.

Exit Strategies: Valuation guides exit pricing for IPOs or sales.

CHAPTER 13: FUND MONITORING, REPORTING AND EXIT

Fund Monitoring: Ongoing oversight of investments, performance, and compliance.

Periodic Reporting: AIFs provide quarterly or annual reports to investors and SEBI.

Compliance Tracking Report (CTR): Details fund activities, investments, and risks.

SEBI Regulations: Mandate transparency in monitoring and reporting.

Investor Reporting: Includes NAV, performance, fees, and risk disclosures.

Exit Strategies: Include IPOs, sales, or mergers for realizing returns.

Liquidation Period: One-year period post-tenure for close-ended AIFs.

In-Specie Distribution: Distribution of assets instead of cash during liquidation.

Valuation Norms: Ensure accurate asset valuation during monitoring and exit.

Fund Governance: Oversees monitoring and reporting processes.

Risk Management: Monitors market, liquidity, and operational risks.

Regulatory Compliance: Adherence to SEBI (AIF) Regulations, 2012.

Fund Audits: Verify accuracy of financial and performance reports.

Investor Protection: Transparent reporting ensures fair treatment.

Performance Metrics: Include IRR, TVPI, and risk-adjusted returns.

Fund Expenses: Monitored and reported to ensure fair allocation.

Conflict of Interest: Addressed through policies and disclosures in reports.

Fund Closure: Liquidation scheme manages unliquidated investments.

Regulatory Updates: SEBI circulars (e.g., 2024) refine reporting requirements.

Due Diligence: Ongoing checks on investments to mitigate risks.

Transparency: Detailed disclosures in CTR ensure investor clarity.

Investment Restrictions: Monitored to comply with leverage and concentration limits.

Fund Performance: Tracked against benchmarks like NIFTY 50.

Investor Rights: Include access to timely and accurate reports.

Custodian Role: Ensures safekeeping of assets during monitoring.

Tax Implications: Reporting includes tax treatment of gains and distributions.

Fund Managers: Responsible for monitoring investments and compliance.

Sponsors: Ensure fund credibility and compliance during operations.

Valuation Policies: Applied consistently for accurate reporting.

Exit Planning: Critical for maximizing returns during fund closure.

Regulatory Filings: CTR and other reports submitted to SEBI.

Fund Structure: Impacts monitoring and reporting processes.

Co-Investments: Monitored separately, with specific reporting requirements.

Market Volatility: Monitored to assess impact on fund performance.

Liquidity Management: Ensures ability to meet redemption or exit obligations.

Fund Documentation: PPM and agreements guide monitoring and reporting.

Investor Suitability: Reporting informs investors of risk and return profiles.

Global Exposure: Monitored for currency and geopolitical risks.

Stewardship Code: Mandates active engagement with investee companies.

Grievance Redressal: Reporting includes mechanisms for investor disputes.

Fund Strategy: Monitoring ensures alignment with investment objectives.

NAV Reporting: Periodic updates reflect current asset values.

Risk Disclosure: CTR details all material risks for transparency.

Portfolio Management: Monitored to optimize risk-adjusted returns.

Regulatory Oversight: SEBI ensures compliance with reporting standards.

CHAPTER 14: TAXATION

Pass-Through Status: Category I and II AIFs pass income to investors for taxation.

Category III Taxation: Taxed at fund level, with income treated as business income.

Long-Term Capital Gains (LTCG): Taxed at 10% for listed securities held over 12 months.

Short-Term Capital Gains (STCG): Taxed at 15% for listed securities held 12 months or less.

Business Income: Taxed at applicable slab rates for Category III AIFs.

Tax Deduction at Source (TDS): Applied on distributions to investors, per ITA.

Income Tax Act (ITA): Governs taxation of AIF income and distributions.

Determinate Trusts: Beneficiaries and shares are fixed, impacting tax treatment.

Indeterminate Trusts: Beneficiaries or shares unknown, taxed at MMR.

Maximum Marginal Rate (MMR): Applied to indeterminate trusts under section 164.

Dividend Taxation: Taxed in investors' hands at applicable rates.

Derivative Gains: Treated as business income or capital gains, per transaction.

Tax Reporting: AIFs file returns and comply with TDS requirements.

SEBI Regulations: Align tax compliance with AIF operational rules.

Foreign Investors: Subject to tax treaties and FEMA regulations.

Accredited Investors: Tax treatment aligns with standard investor provisions.

Fund Expenses: Deductible for tax purposes, impacting net income.

Capital Gains: Taxed based on holding period and asset type.

Tax Audits: Mandatory to ensure compliance with ITA provisions.

Investor Reporting: Includes tax details on distributions and gains.

Regulatory Updates: Finance Act amendments (e.g., 2018) impact AIF taxation.

Tax Planning: Critical for optimizing post-tax returns for investors.

Fund Structure: Trust, LLP, or company impacts tax obligations.

Loss Carry Forward: Allowed under ITA to offset future taxable income.

Tax Treaties: Reduce withholding tax for foreign investors in AIFs.

Anti-Avoidance Rules: GAAR ensures genuine transactions, avoiding tax evasion.

Fund Governance: Ensures compliance with tax reporting requirements.

Valuation Impact: Affects tax calculations for capital gains and distributions.

Investor Protection: Transparent tax reporting ensures fair treatment.

Regulatory Compliance: AIFs adhere to ITA and SEBI tax guidelines.

Dividend Distribution Tax (DDT): Abolished, with dividends now taxed in investors' hands.

Tax on Unlisted Securities: LTCG taxed at 20% if held over 36 months.

Fund Performance: Tax impacts net returns, critical for evaluation.

Tax Deductions: Available for certain expenses, reducing taxable income.

Global Investments: Subject to tax treaties and foreign tax credits.

Reporting Compliances: AIFs report income, TDS, and investor details to tax authorities.

Fund Closure: Tax implications arise during liquidation and distributions.

Investment Strategy: Impacts tax treatment (e.g., capital gains vs. business income).

Transparency: Tax disclosures ensure investor awareness of liabilities.

Due Diligence: Includes tax compliance checks for investments and managers.

Surcharge and Cess: Applied on tax rates, increasing effective tax liability.

Tax Exemptions: Available for specific investments under ITA provisions.

Fund Audits: Verify tax calculations and compliance with ITA.

Investor Suitability: Tax implications considered in suitability assessments.

Regulatory Oversight: Tax authorities and SEBI ensure compliance.

CHAPTER 15: REGULATORY FRAMEWORK

SEBI (AIF) Regulations, 2012: Govern registration, operations, and compliance of AIFs.

Fund Registration: Mandatory with SEBI, specifying category and strategy.

Sponsors: Contribute 2.5% of corpus, ensuring fund credibility.

Fund Managers: Must have professional qualifications and pass NISM certification.

Investment Restrictions: Include leverage limits (2x NAV for Category III) and concentration caps.

Accredited Investors: Eligible for relaxed investment limits and specialized schemes.

Custodians: Mandatory for Category III AIFs to safeguard assets.

Private Placement Memorandum (PPM): Outlines fund terms, risks, and objectives.

Valuation Norms: SEBI mandates periodic valuation by independent valuers.

Investor Reporting: Periodic disclosures on performance, fees, and risks.

Fund Governance: Involves trustees, managers, and investment committees.

Conflict of Interest: Addressed through policies and disclosures.

Fund Audits: Mandatory to ensure financial and operational accuracy.

Exit Strategies: Include IPOs, sales, or mergers, governed by SEBI rules.

Liquidation Period: One-year period post-tenure for close-ended AIFs.

In-Specie Distribution: Allowed during liquidation, subject to SEBI approval.

Foreign Investments: Comply with FEMA and RBI regulations.

Anti-Money Laundering (AML): AIFs adhere to PMLA and KYC norms.

FATCA and CRS: AIFs report foreign investor details for tax compliance.

Stewardship Code: Mandates active engagement with investee companies.

Fund Expenses: Include setup, operational, and transaction costs, disclosed in PPM.

Transparency: SEBI mandates clear disclosures for investor protection.

Due Diligence: Conducted on sponsors, managers, and investments.

Fund Structure: Trust, LLP, or company impacts regulatory compliance.

Regulatory Updates: SEBI circulars (e.g., 2021, 2024) refine AIF rules.

Investor Protection: SEBI ensures fair treatment and grievance redressal.

Leverage Limits: Category III AIFs restricted to 2x NAV for risk control.

Fund Monitoring: Ongoing oversight of investments and compliance.

Tax Compliance: Aligns with ITA and SEBI regulations for reporting.

Fund Closure: Governed by SEBI rules for liquidation and distributions.

Co-Investments: Allowed with SEBI approval and disclosures.

Risk Management: Includes monitoring market, liquidity, and operational risks.

Valuation Policies: Ensure consistent and transparent asset valuation.

Regulatory Filings: PPM, CTR, and other reports submitted to SEBI.

Investor Rights: Include voting, redemption, and information rights.

Fund Performance: Reported against benchmarks like NIFTY 50.

Global Exposure: Subject to FEMA and RBI regulations for offshore investments.

Accreditation Agency: Recognized by SEBI to verify accredited investors.

Grievance Redressal: SEBI mandates mechanisms for resolving disputes.

Investment Strategy: Must align with SEBI regulations and fund objectives.

Portfolio Management: Optimized under regulatory oversight for returns.

Risk Disclosure: PPM details all material risks for transparency.

Fund Documentation: Includes PPM, trust deeds, and agreements.

Investor Suitability: Assessed to ensure alignment with risk and goals.

Regulatory Oversight: SEBI ensures compliance with AIF regulations.

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.

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All the Best ☺