

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

Alternative Investments Master Class

- The AIF Regulations were introduced on May 21, 2012.
- An AIF means any fund established or incorporated in India in the form of a trust or a company or a LLP or a body corporate which:
 - is a privately pooled investment vehicle which collects funds whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
 - is not covered under mutual fund regulations or collective investment scheme regulations or any other regulations to regulate fund management activities

- Under the AIF Regulations, funds have been demarcated into categories on the basis of investment activities. An AIF will have to seek registration under one of the categories of funds specified under the Regulations.
- Currently, the AIF Regulations provide for three categories of funds:
 - Category I Alternative Investment Fund;
 - Category II Alternative Investment Fund; and
 - Category III Alternative Investment Fund.

DESCRIPTION OF FUND CATEGORIES

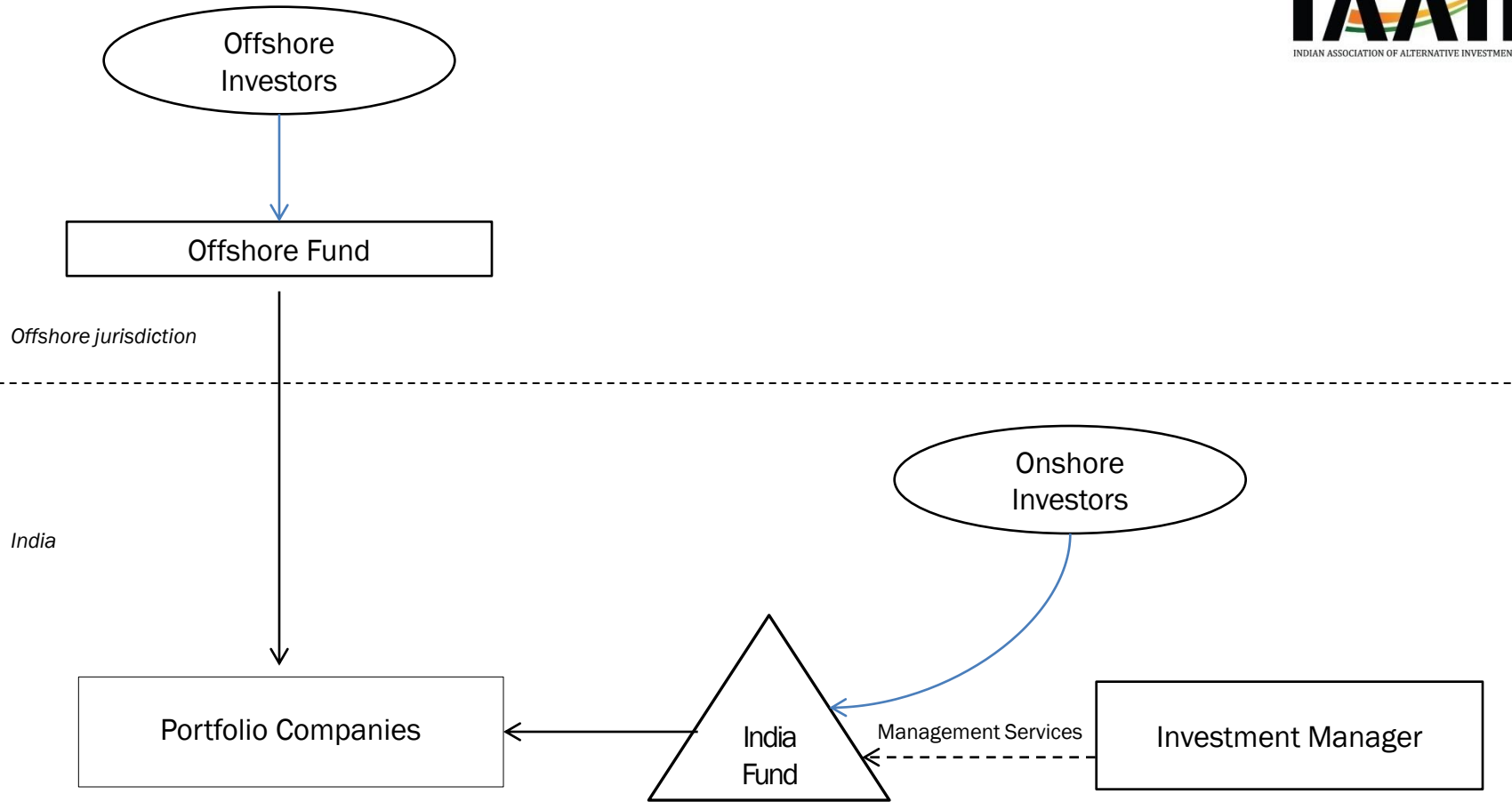


Category I AIF	Category II AIF	Category III AIF
<ol style="list-style-type: none"> 1. Category I AIFs are funds with strategies to invest in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable. 2. Under the AIF Regulations, the following funds are designated as sub-categories of Category I AIFs - venture capital funds, SME funds, social venture funds, infrastructure funds and such other AIFs as may be specified. 3. AIFs which are generally perceived to have positive spillover effects on the economy and for which SEBI, the Government of India or other regulators may consider providing incentives or concessions shall be classified as Category I AIFs. 	<ol style="list-style-type: none"> 1. Category II AIFs are funds which cannot be categorized as Category I AIFs or Category III AIFs. These funds do not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in the Regulations. 2. AIFs such as private equity funds or debt funds for which no specific incentives or concessions are given by the Government of India or any other regulator are included in the Category II AIF classification. 	<ol style="list-style-type: none"> 1. Category III AIFs are funds which employ complex or diverse trading strategies and may employ leverage including through investment in listed or unlisted derivatives. 2. AIFs such as hedge funds or funds which trade with a view to make short-term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the Government of India or any other regulator are included in the Category III AIF classification.

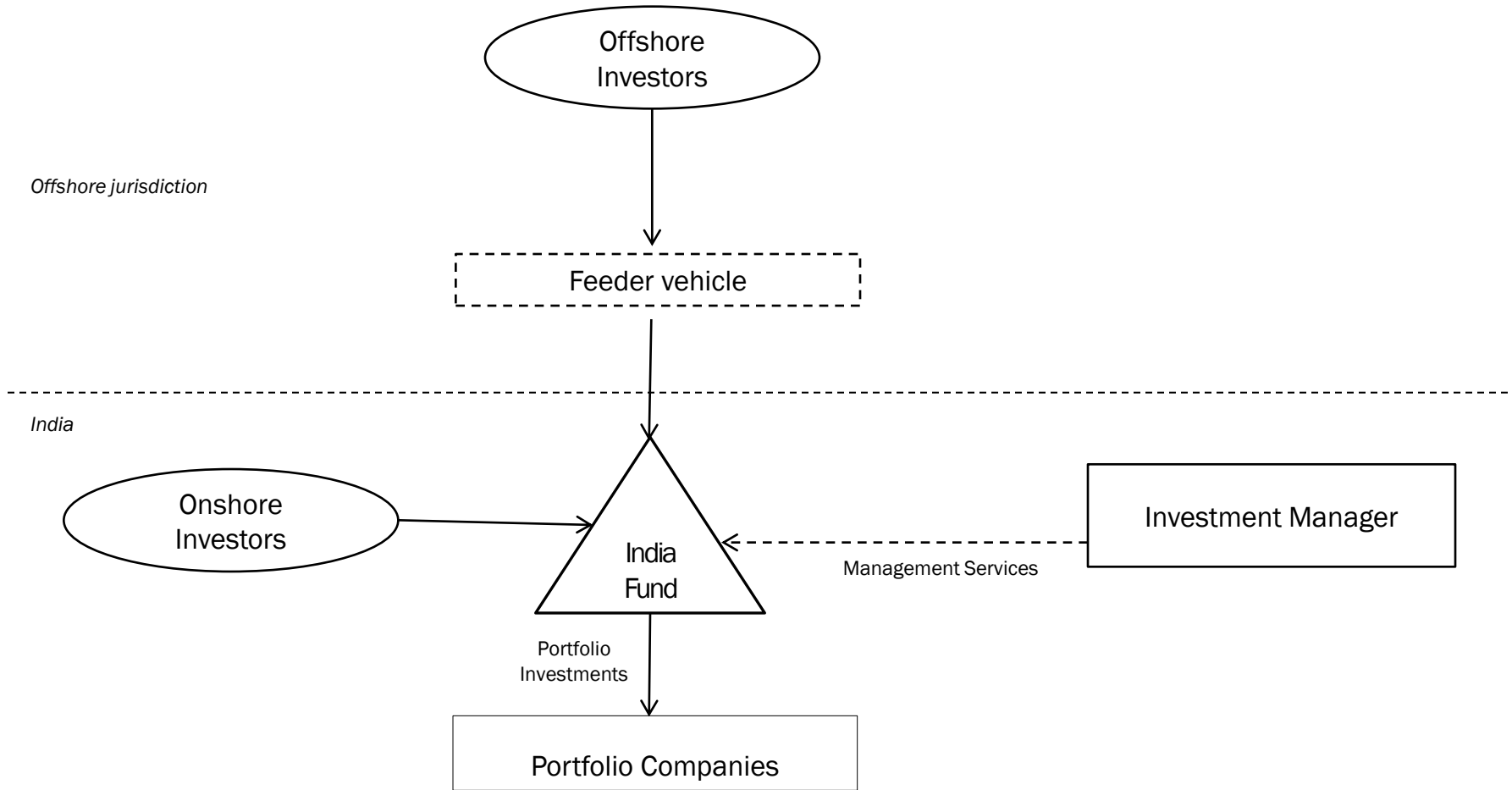
1. HNIs
2. Family offices
3. Banks
4. Insurance companies
5. Pension funds
6. AIFs
7. DFIs
8. Government bodies
9. Sovereign funds
10. *Placement agents and other gatekeepers*

- Jurisdiction for pooling offshore LPs
- Pooling vehicle
 - Suitability for targeted investors
 - Tax neutrality and certainty
 - Ease of making distributions
- Eligibility for treaty relief. Many treaties have been renegotiated – Mauritius, Cyprus - and many are in the process of renegotiation – Singapore
- Changes in India's foreign exchange and tax regimes

CO-INVESTMENT STRUCTURE



UNIFIED STRUCTURE



1. Target corpus
2. Sponsor commitment
3. Investment restrictions
4. Fund's capital structure
5. Closings
6. Commitment period
7. Term
8. Distribution waterfall
9. Contributor giveback
10. Management fee
11. Co-investments