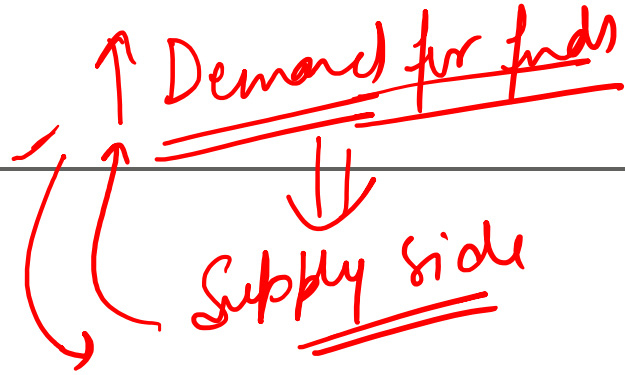


Fundamentals of Alternative Investments

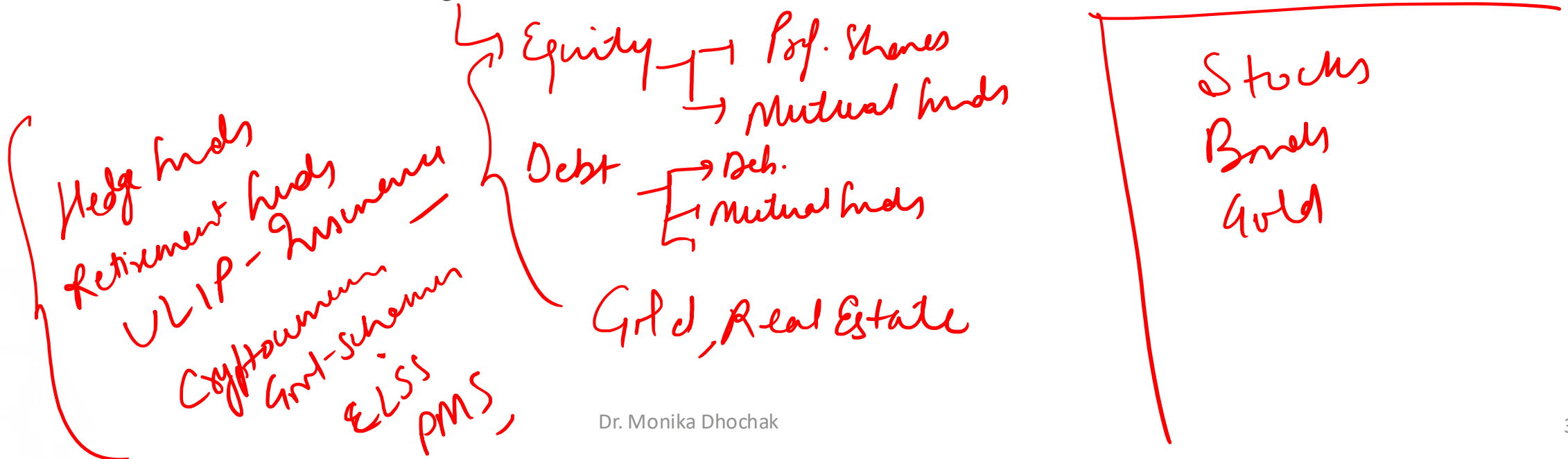
Dr. Monika Dhochak

Topics

- Alternative Vs. Traditional Investments
- Types of Alternative Investments
- Hedge Funds ✓
- Private Equity ✓
 - Angel Investors
 - Venture Capital
 - Leverage Buyouts
 - Distressed Investments
- Real Estate Investment Funds
- Commodity Funds ✓
- Alternative Investment Funds (AIFs) ✓
- Difference between MF/PMS/AIF
- Recent developments in Alternative investments



What are your sources of Investments?



INTRODUCTION

- Traditional Investments: Long only position in various traditional investment like stocks, bonds and cash
- Alternative Investments: Hedge funds, private equity funds, real estate, commodities, etc.

Traditional Investments



Stocks ✓



Bonds ✓



Cash ✓

Alternative Investments



Real Estate ✓



Private Equity/
Venture Capital ✓



Hedge Funds ✓



Private Loans ✓

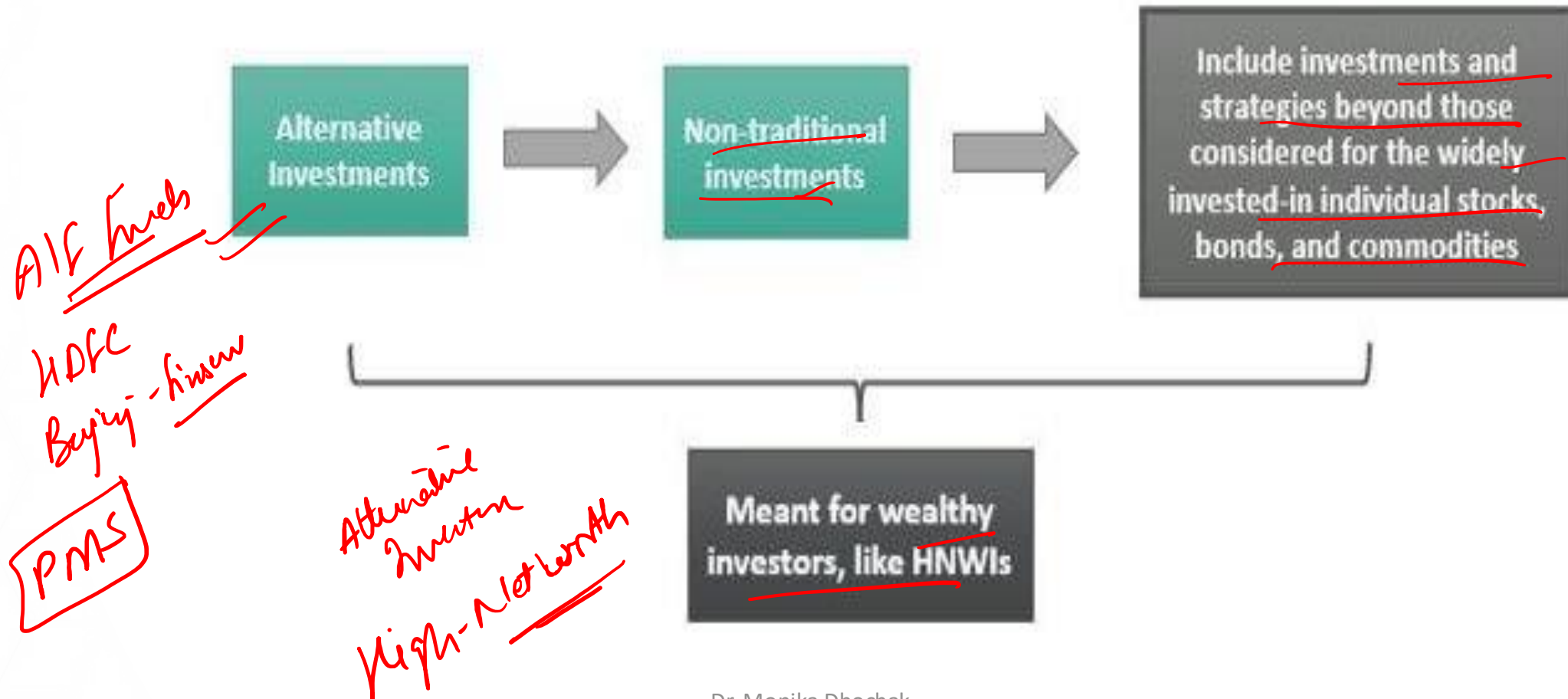


Commodities &
Managed Futures ✓



Energy ✓

Alternative Investments



Why Investors would like to invest in Alternative investments? → ?

*Diversification
Higher Returns
High Risk*

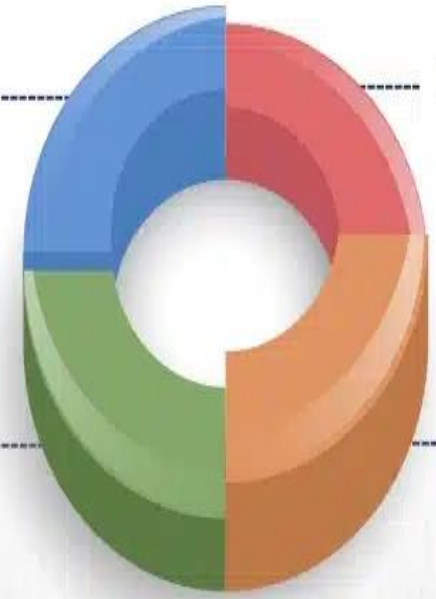
*Investors
↓
Business
PE*

*→ More Investment / Patient Capital
→ Low Volatility*

Benefits of Alternative Investments

↓ Risk

Diversification of Portfolio



Lower Correlation with Traditional Investments

*VCI/PE
Crypto currency*

Hence, adding Alternative Investments to a portfolio is expected to diversify the risks and expected return.

Not related to Traditional member

*Freedom
Multiple
Options*

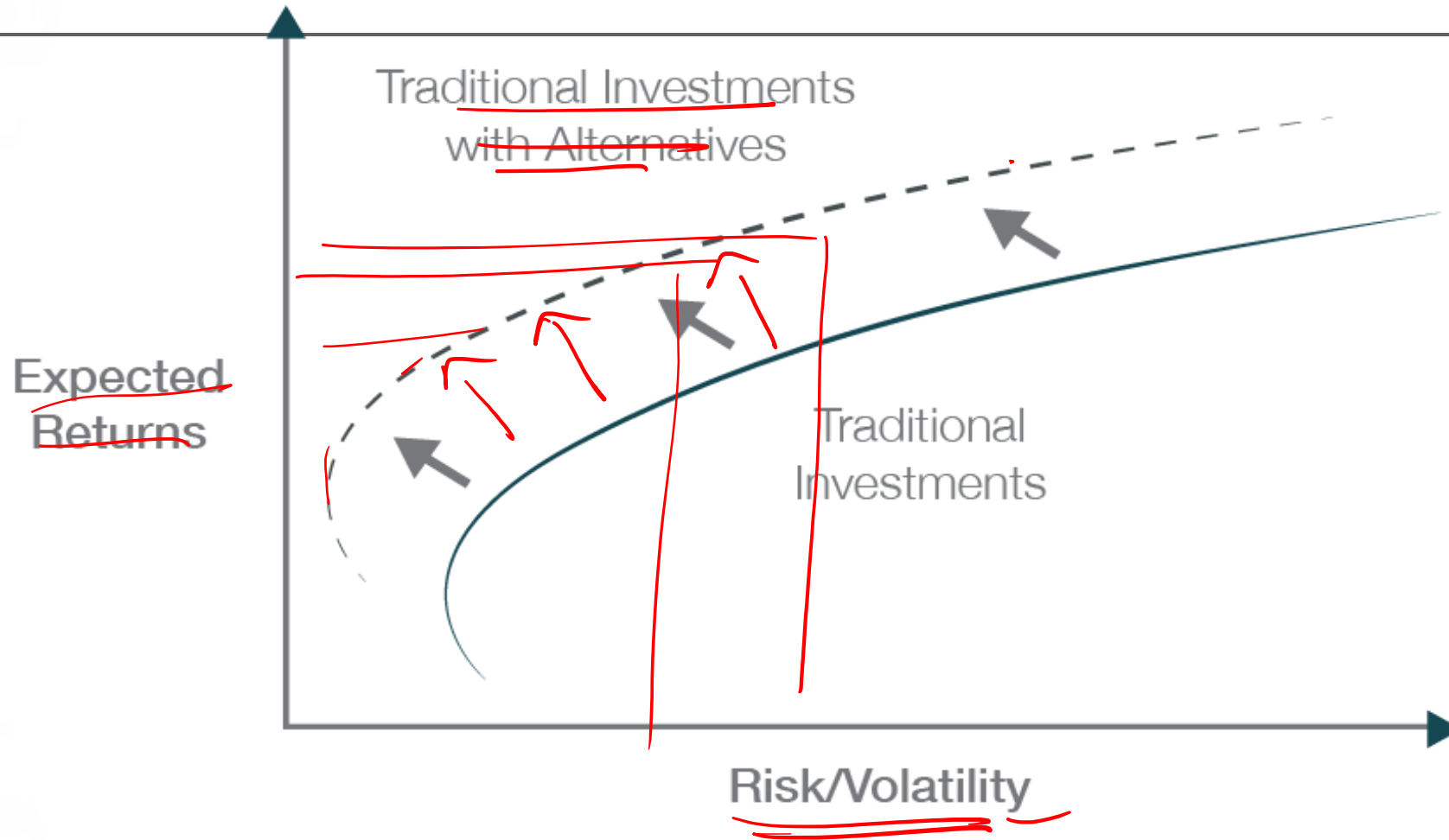
Potential Higher Returns

Inflation Protection

Decentralized

*Satoshi Nakamoto
2009
P2P*

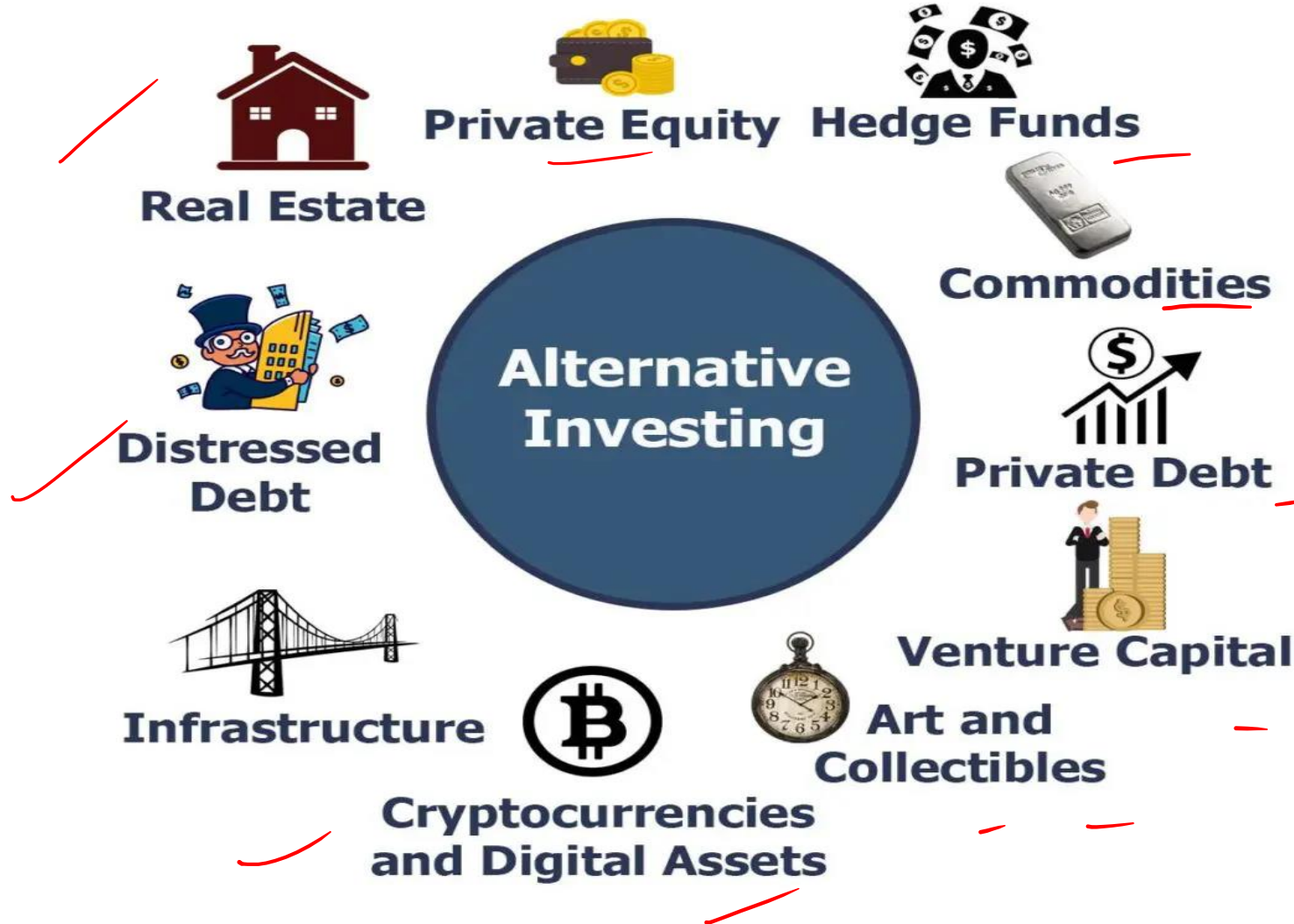
*Alternative Investments
↓
Financial Crisis 2007-2008
→ Cryptocurrency
2012, 2014*



Alternative investments add diversification to a portfolio and offers a potential for greater returns.

Efficient Frontier Movement

Common Alternative Investments



FEATURES OF ALTERNATIVE ASSETS

High Networth Individuals

- Mostly held by HNIs and Institutional investors
- High ticket size
- Complex nature of investments
- Lack of transparency
- Less stringent disclosure requirements
- Less liquidity (takes time to sell off at fair price, urgent sales are generally at a loss)
- Requires more specialized knowledge
- Less historical data available → Reductly

Mutual fund

↓ AIFs

Un Regulated

more freedom → Complex

Min Investment is 1 Cr.

Longer Period → Business, Real Estate

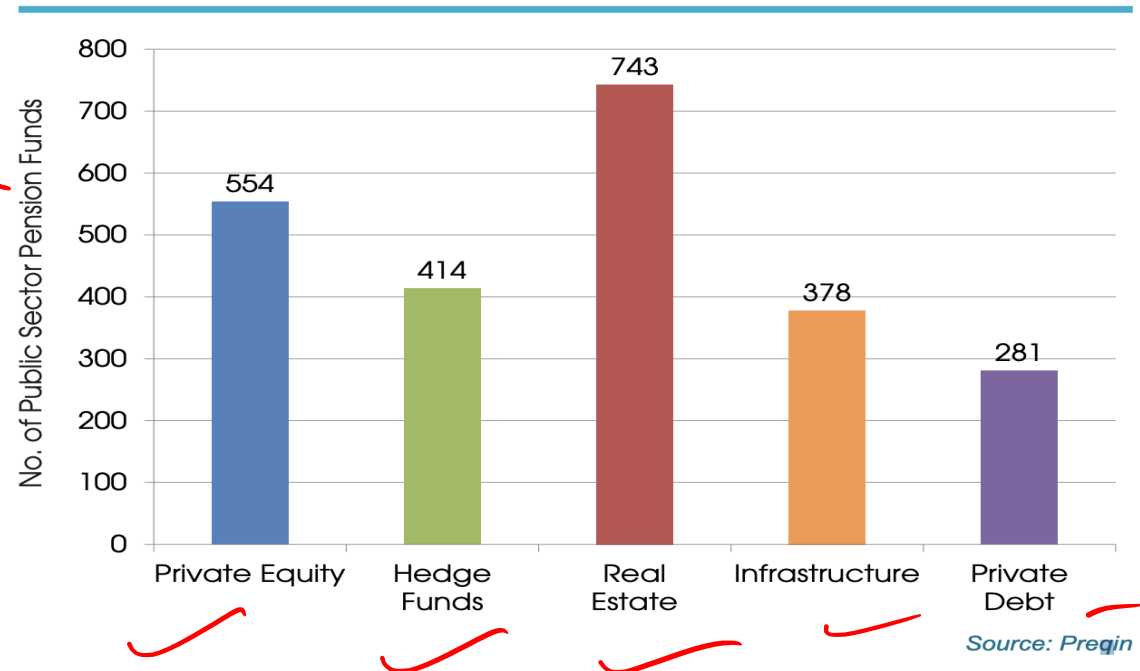


The great diversification: Why pension funds are moving beyond stocks and bonds

by Anca Mataoanu
Published 18 September 2024 in Finance • 8 min read

Cash Flow Mismatch

Fig. 1: Number of Public Pension Funds Investing in Each Asset Class



Demand
 ↓
ULIP?
 ↓
Unit-linked Insurance Plans
 → Returns Attractive → Protection + Returns
 → Diversify Risk & Better

Example:

- Imagine a **large public pension fund**, responsible for providing **retirement income** for thousands of employees. The fund has traditionally invested heavily in **stocks and bonds**. However, to ensure that it can meet its **long-term obligations** to retirees while managing **volatility**, the fund decides to allocate a portion of its assets to **alternative investments**.

Why Allocate to Alternative Assets?

- Pension fund aims to allocate **20%** of its total assets to alternative investments: **Private Equity (10%)**, **Real Estate (5%)**, **Infrastructure (3%)**, **Hedge Funds (2%)** – What are the **benefits and risks** observed from this investment strategy?

Diversify Risk

↑ Return

Traditional Investments

Risky (Long term)

↑ Business Growth

↑ Risk

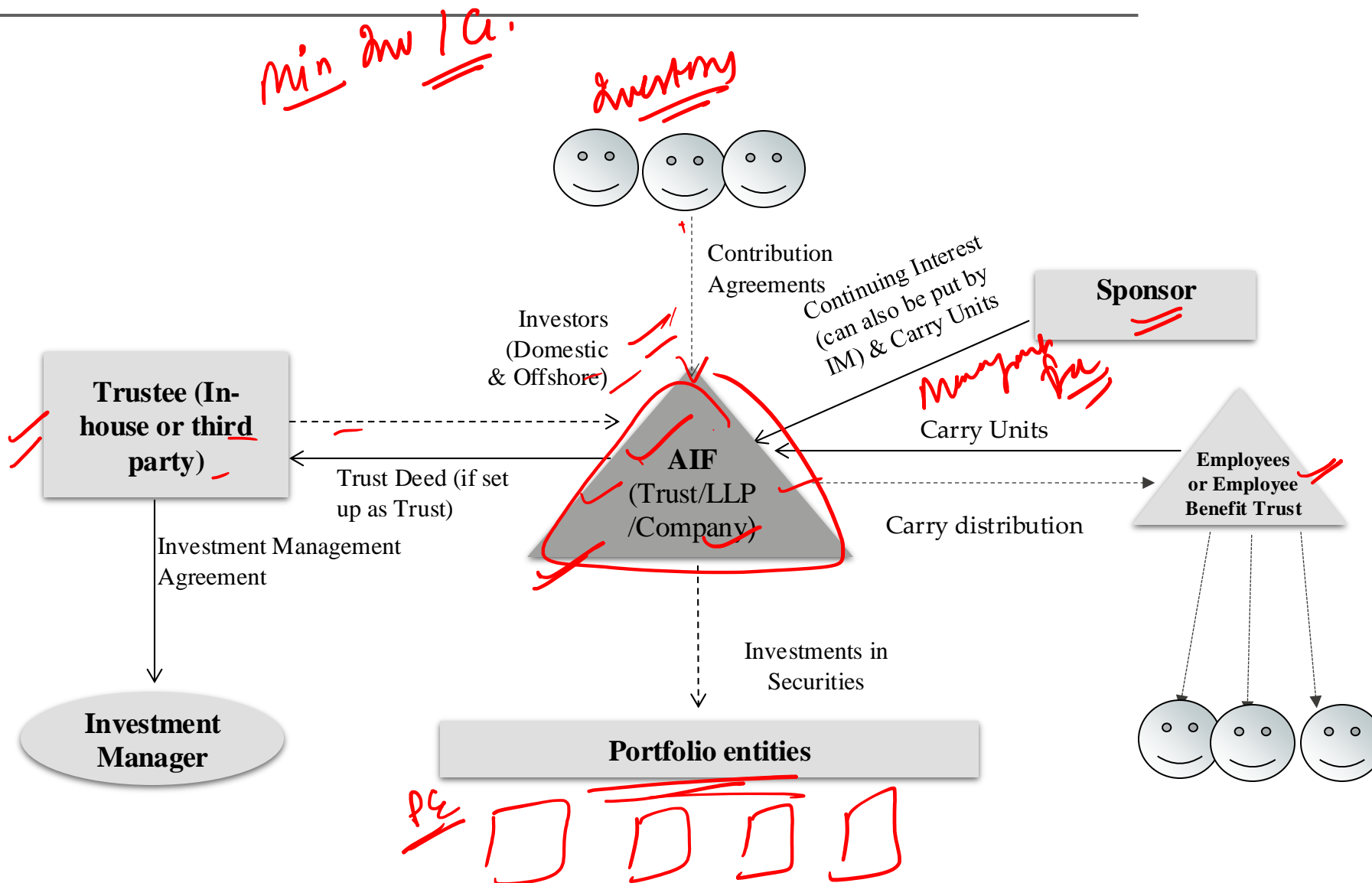
Alternative Investment Funds

What are AIF and How do they work?

- An AIF is a privately pooled investment vehicle that pools funds from investors for investments in private equity, hedge funds, angel funds, and venture capital funds, among others.



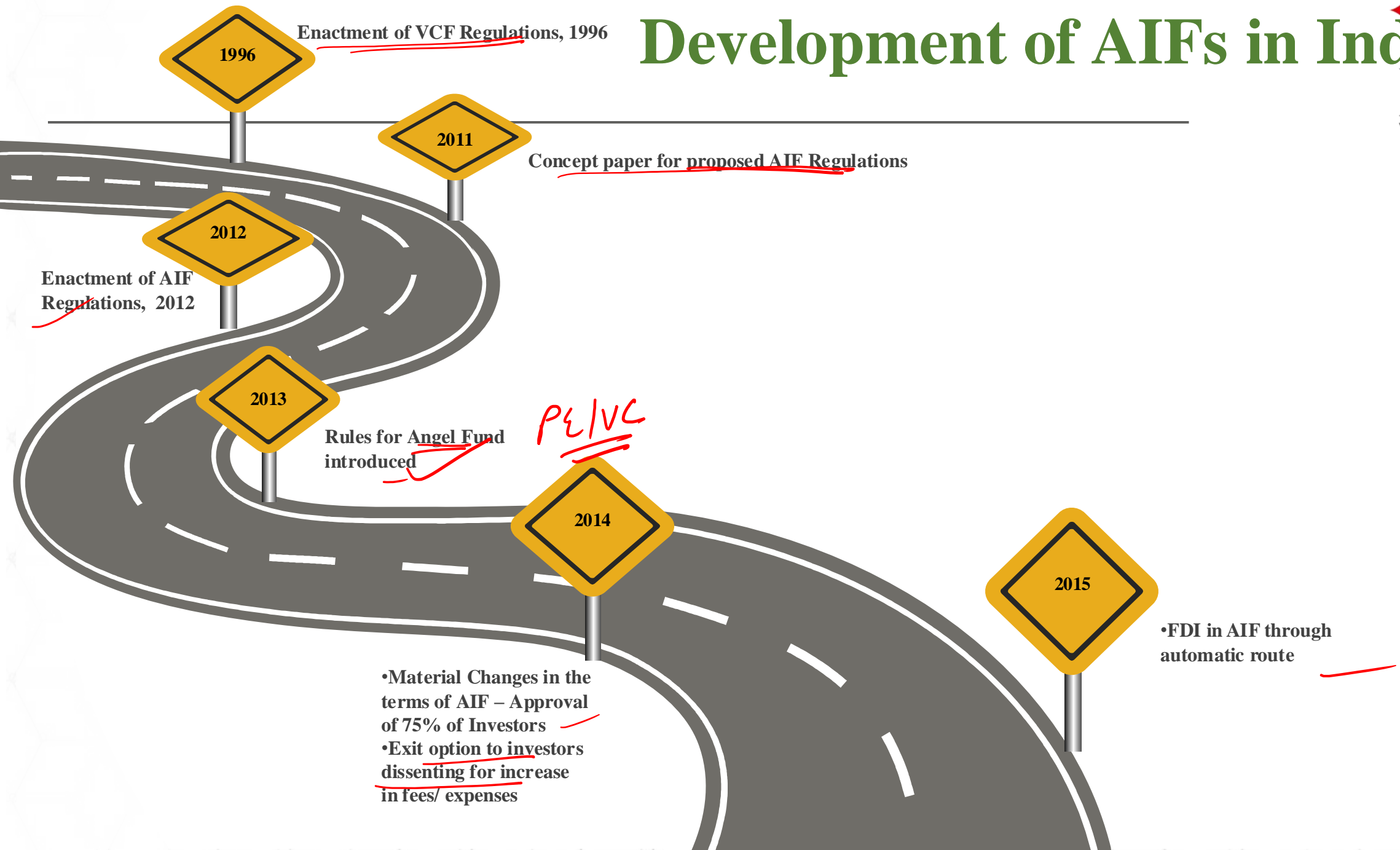
Typical AIF Structure



AIF

CRITERIAL	TRUST	COMPNY	LLP
Compliance	LOW	HIGH	MODERATE
Client Confidentiality	High	Moderate	Low
Market Practice	More than 95% of the AIFs are set up as Trusts	Minimal	Less than 5% AIFs are set up as LLP
Accetability with Investors and distributors	High	Low	Moderate
Ease of operations	High	Low	Moderate
Mitigation of GST on management fee	No	No	Yes

Development of AIFs in India



2016

- Relaxation of rules for Angel funds.

2017

- CAT III AIF permitted to invest in commodities derivatives
- Online registration platform for AIFs introduced

2018

- Guidelines for AIF in IFSC introduced
- Further relaxation of rules for Angel funds.

SEBI

Alternative Investment Funds?

- Complete Freedom ✓
- More Riskier, More restriction → MF *Multinational funds*
Loan + Grant
- Min Investment Amount is 1 Cr.
- An AIF can not have more than 1000 investors → ? *↑ fund size*
- Lock-in Period (Close ended funds) *open-ended*
- Different Fee structure - Expense ratio, Performance based etc

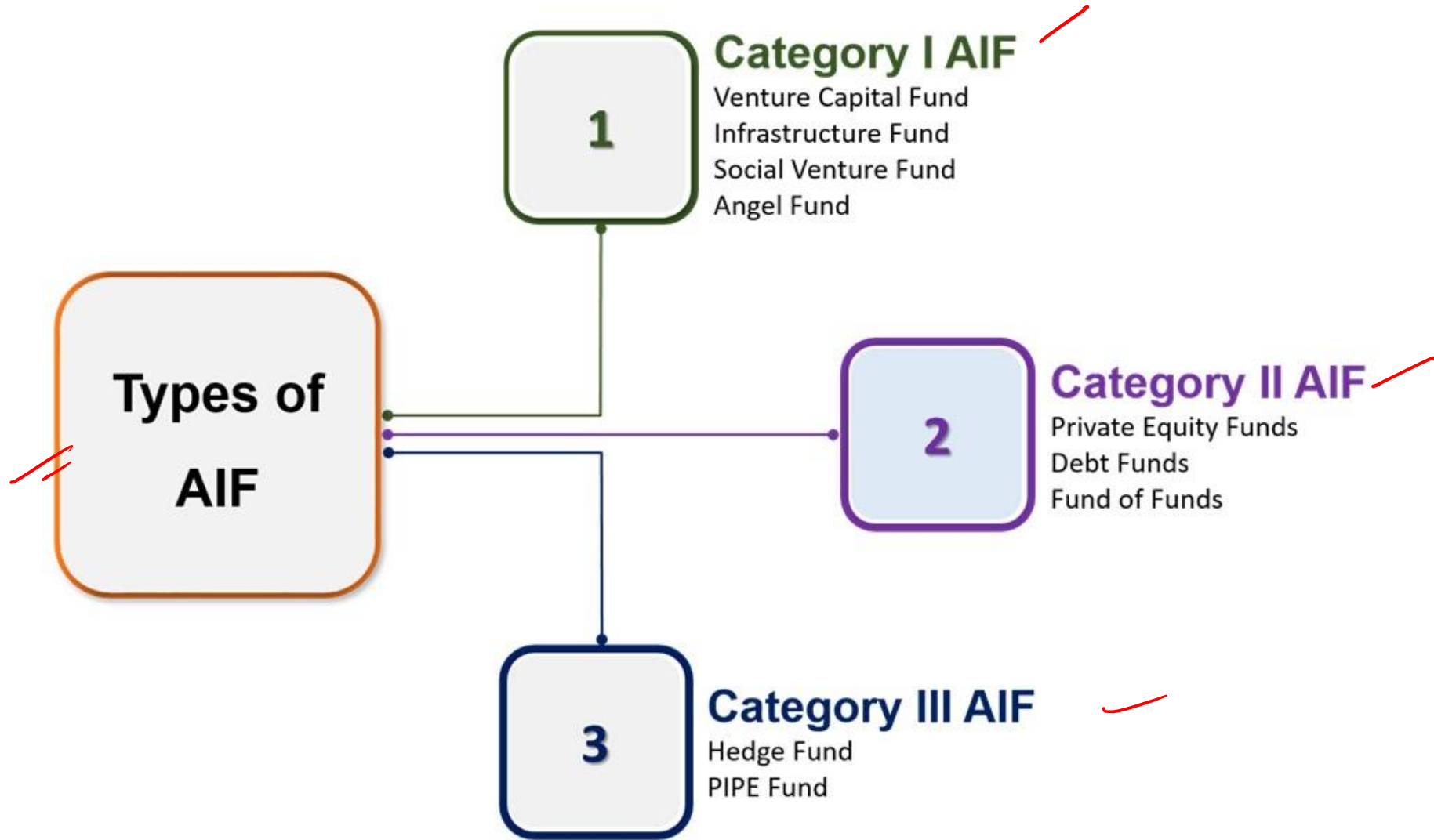
MF

REGULATION in India

- SEBI AIF (Alternate Investment Funds) Regulations, 2012 gives regulatory framework for the AIF funds in India.

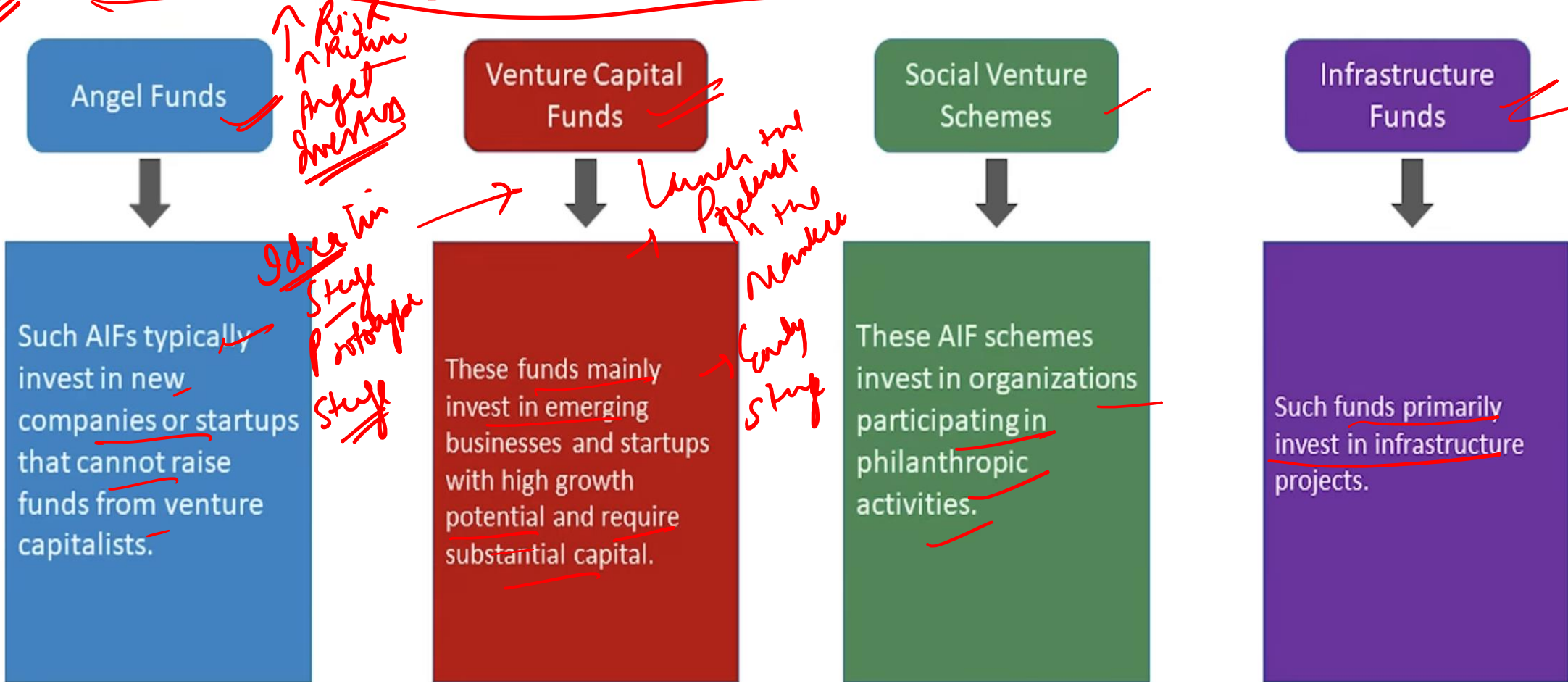
REGULATION IN USA

- In USA Alternative Investments are ~~privately~~ pooled.
- They are not required to be licensed or registered.
- They are required to file appropriate organizational filing.
- They are regulated by SEC or State laws.
- Maximum beneficial owners are 100. No restrictions for number of investors.
- Fund size up to \$150 million gives exemption for license/registration for private pooled and manged funds



Category I AIF

These funds invest the corpus in early-stage small and medium enterprises or SMEs, startups, and new corporations that are economically viable and have significant growth potential.



Category III AIF

More Risky

- Category III AIFs are the AIFs which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives
- Category III AIFs may be open ended or close ended
- Closed-ended funds are the funds in which an investor cannot enter, and an existing investor cannot exit until the capital scheme ends.
- Examples of open ended funds: Avendus Absolute Return Fund, Avendus Enhanced Return Fund, DSP India Enhanced Equity SatCore Fund
- Closed-ended funds are free from sudden fluctuations, and fund managers are also not worried about the fund size.
- Examples of close ended funds: ASK Golden Decade Fund, ASK Growth India Fund

Category III AIFs are the AIFs which employ diverse or complex trading strategies

Various types of funds such as hedge funds, PIPE Funds, etc. are registered as Category III AIFs

There is no specific incentive or concession given by the government on investment on these funds as well.

Category III AIF

<p>Hedge Fund</p>	<ul style="list-style-type: none">• Hedge Fund means an AIF which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including listed and unlisted derivatives• They take up leverage to a great extent and have aggressive management of their investment portfolio• <i>Examples</i><ol style="list-style-type: none">1. <i>Motilal Oswal Hedged Equity Multifactor Strategy Fund</i>2. <i>IDFC India Equity Hedge (IEH) Tactical Fund</i>
<p>PIPE (Private Investment in Public Equity) Fund</p>	<ul style="list-style-type: none">• <u>Private investment in public equity</u> refers to <u>buying shares of publicly traded stock at a discounted price.</u>• This enables the investor to purchase a stake in the company, while the company selling the stake receives <u>capital infusion</u> to grow its business.• <i>Examples:</i><ol style="list-style-type: none">1. <i>Marcellus AIF – Rising Giants</i>2. <i>Nippon India – The NEXT BILLION</i>

→ Larger shares of company

Category III AIF- Indian Based

In India, most of the AIF are Category III-based AIFs.

This Category III-based AIF invest in Publicly listed Indian Equities.

Further sub-classification of AIF can be done as Long only and Long-Short.

Long-only AIF examples are Motilal Oswal, ASK, Alchemy, and Abakkus to name a few.

While the Long-Short AIF are Tata, Kotak, IIFL and Edelweiss.

The next slide covers some of examples of Long Only and Long-Short Category-III AIF in India.

Long Only: A Long-Only Absolute Return Fund is a fund that takes only long positions, seeks undervalued securities, and reduces volatility and downside risk by holding cash, fixed income, or other basic asset classes.

Long-Short: A long-short equity strategy is an investment approach that aims to achieve positive returns by taking both long and short positions.

AIF- Open-Ended & Close-Ended

Open Ended:

- Open Ended Structure is appropriate for such asset classes whose market value can be easily calculated.
- It means that assets can be readily marked to market and the portfolio can be re-balanced regularly.
- Also, these asset classes are easily transferable from one investor to another.

Close-Ended:

- In Close Ended funds, the asset class is not capable of being marked to market on a regular basis.
- These asset classes are not easily transferable from one investor to another.
- These investments are carried at cost until a realization event occurs like the sale of assets.

Category II AIF

↑ Risk
↑ Strategy

- ❑ Category II AIFs are the AIFs which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day to day operational requirements.
- ❑ Various types of funds such as real estate funds, private equity funds (PE funds), funds for distressed assets, etc. are registered as Category II AIFs
- ❑ Category II AIFs are required to be close ended → ? ↓ Risk than open-ended
↑ Return
- ❑ No incentive or concession is given by the government on investment in these funds.

Open for Subscription
Vivriti Alpha Debt Fund – Enhanced

Fund Type	Category II Debt AIF registered with SEBI
Estimated Initial Closing	March 2022
Estimated Final Close	March 2023
Fund Size	INR 500 crores (including green-shoe option)
Fund Tenor	3.5 years from final close
Fund Manager	Soumendra Ghosh & Mohammed Irfan

class - created

Category II AIF

<p><u>Debt Fund</u></p> <p><i>Ventures Private Equity</i></p> <p><i>Debt</i></p>	<ul style="list-style-type: none">Invests primarily in <u>debt securities of listed or unlisted investee companies</u> or in <u>securitized debt instruments</u> as per the stated objectives of the Fund<u>Investee Company</u> refers to a <u>single business or group of businesses</u> in which a fund such as a <u>venture capital firm</u> or <u>private equity firm</u> has directly invested in.As per the <u>SEBI regulations</u>, the amount invested in Debt Fund cannot be utilised for the purpose of <u>giving loans</u>, as AIFs a <u>privately pooled investment vehicle</u>Companies that have <u>low credit score</u> generally <u>release high yield debt securities</u> which comes with high riskExamples:<ol style="list-style-type: none"><u>Aditya Birla Real Estate Fund</u><u>Alchemy Leaders of Tomorrow Closed-Ended Fund – Series 2</u>
<p><u>Private Equity Fund</u></p>	<ul style="list-style-type: none">Invests primarily in <u>equity or equity linked instruments of investee companies</u> according to the stated objective of the fundPrivate equity funds invest in <u>unlisted private businesses</u> that face difficulty in raising capital by issuing equity and debt instruments.A PE fund typically has a fixed investment horizon ranging from 4 to 7 years. After 7 years, the firm expects that it would be able to exit the investment with a good amount of profit. <i>return → Exit → M&A or IPO</i>Example<u>Motilal Oswal Private Equity India Business Excellence Fund</u>
<p><u>FOF</u></p> <p><u>Fund of Funds</u></p>	<ul style="list-style-type: none">As the name suggests, this fund of funds is a <u>combination of various Alternative Investment Funds</u>.Investment strategy of the fund is to invest in other AIFs rather than <u>making its own portfolio or deciding what specific sector to invest in</u>.Fund of Funds under AIFs cannot issue units of fund publicly, unlike Fund of Funds under Mutual Funds.Example: <u>HDFC AMC Select AIF FOF – I</u>

Categories of AIF – Which one to Select ? Part -1



Criteria	Category I AIF	Category II AIF	Category III AIF
Categorization	<ul style="list-style-type: none"> - Angel Fund - Venture Capital Funds; - SME Funds; - Social Venture Funds; and - Infrastructure Funds. 	<ul style="list-style-type: none"> - Private Equity Funds; - Structured Credit Funds; - Debt Funds; - Real Estate Funds. 	<ul style="list-style-type: none"> - Long only Funds; - Long-short Funds; - Hedge Funds and any other Funds with diverse and complex trading strategies.
SEBI Registration Fees	Rs.5,00,000 (Rs. 2,00,000 for Angel Fund)	Rs.10,00,000	Rs.15,00,000
Continuing Interest by Sponsor / Manager	Lower of the following amounts: <ul style="list-style-type: none"> - 2.5% of corpus; or - Rs.5 crores (Rs. 50 lakhs for Angel Fund) 	Lower of the following amounts: <ul style="list-style-type: none"> - 2.5% of corpus; or - Rs.5 crores 	Lower of the following amounts: <ul style="list-style-type: none"> - 5% of corpus; or - Rs.10 crores
Ability to invest in Listed Securities	Limited ability for listed investments. Different norms across sub-categories.	Upto 49.99% investments can technically be done in listed securities.	Investments upto 100% can be made in listed securities.
Overall restrictions/Compliances	Moderate	Low	High

Categories of AIF – Which one to Select ? Part - 2



Criteria	Category I AIF	Category II AIF	Category III AIF
QIB Status	Yes [Also, no lock in for investment made prior to IPO if held for at least one year]	Yes [Also, no lock in for investment made prior to IPO if held for at least one year]	Yes
Leverage	No	No	Yes (upto 2X leverage / 100% additional exposure permitted)
Investment by DFIs, Insurance Companies, Banks	Yes, subject to compliance with prescribed norms	Yes, subject to compliance with prescribed norms	No
Diversification	Not more than 25% of the Investible Funds can be invested in a single Portfolio Entity.		Not more than 10% of the Investible Funds can be invested in a single Portfolio Entity.
Close Ended/Open Ended	Close Ended	Close Ended	Open or Close Ended

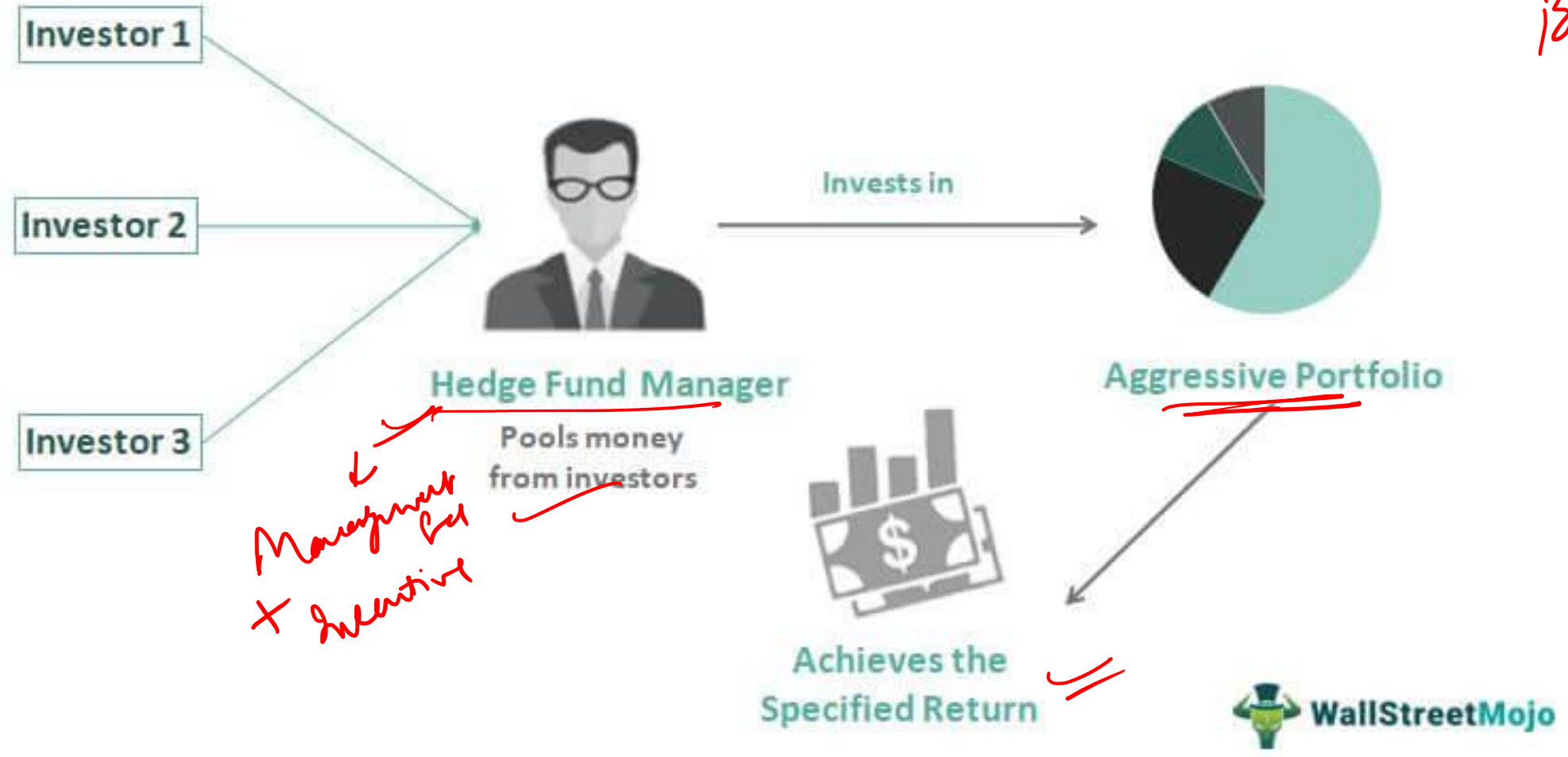
Hedge Funds

→ AIFs

- A hedge fund is an aggressively managed portfolio of investments across asset classes that use leverage, long/short equity / derivatives positions.
Antine, opiti, Credit default swaps.
- The goal is to generate high returns by taking more than average risk.
- Less regulated than traditional investments
- Less liquid than traditional investments
- More flexible
- Use a lot of leverage

How Does a Hedge Fund Work?

Big Short



Hedge Fund Strategies

1. Event Driven Strategies are based on various corporate events and taking advantage of them to generate returns.

- a) Merger - Arbitrage: Creating an arbitrage profit by buying the shares of the target company and selling the shares of an acquirer.
- b) Distressed/ restructuring: Buy undervalued security of firm in financial distress and short overvalued company at the same time
- c) Activists Shareholder: Buy sufficient shares to influence company's policies.
- d) Special Situations: Taking advantage of various corporate situations like open offer, delisting, spin offs, demerger, etc.

M&A
deal

Hedge Fund Strategies (Contd.)

2. Relative value strategies

Profit from price discrepancy between related securities.

- ↙ a) Convertible Bond Arbitrage
- ↗ b) Asset Backed Fixed Income
- c) General Fixed Income
- d) Volatility
- e) Multi-strategy

3. Macro Strategies

They are based on global economic trends and may involve long/short positions in equities, fixed income, currencies or commodities.

Hedge Fund Strategies (Contd.)

4. Equity Hedge Strategies

Profit by taking long and short positions in equity and equity derivative securities

- a) Market neutral
- b) Fundamental growth
- c) Fundamental value
- d) Quantitative directional:-technical analysis
- e) Short bias

- Fund of funds: is an investment company that invest in various hedge funds.
- Helps smaller investor to get access to hedge funds as they may not able to invest directly

Benefits, Performance and Fees

- Potential Benefits

- Low correlation of hedge fund returns with equities provide diversification benefit

- Hedge fund fees

Hedge funds follow a standard shares of "2 and 20"

2% management fees and 20% incentive fees

2% :- Value of assets under management + incentive fee of 20% of profits

- Hurdle rate: Minimum return a hedge fund manager must generate to earn the incentive fees



i. Hard hurdle rate:- means that the fund manager only receives payment for returns that exceed the hurdle rate, but only if the hurdle rate is met.

ii. Soft hurdle rate:- means that incentive fees are paid on all profits, but only if the hurdle rate is met.

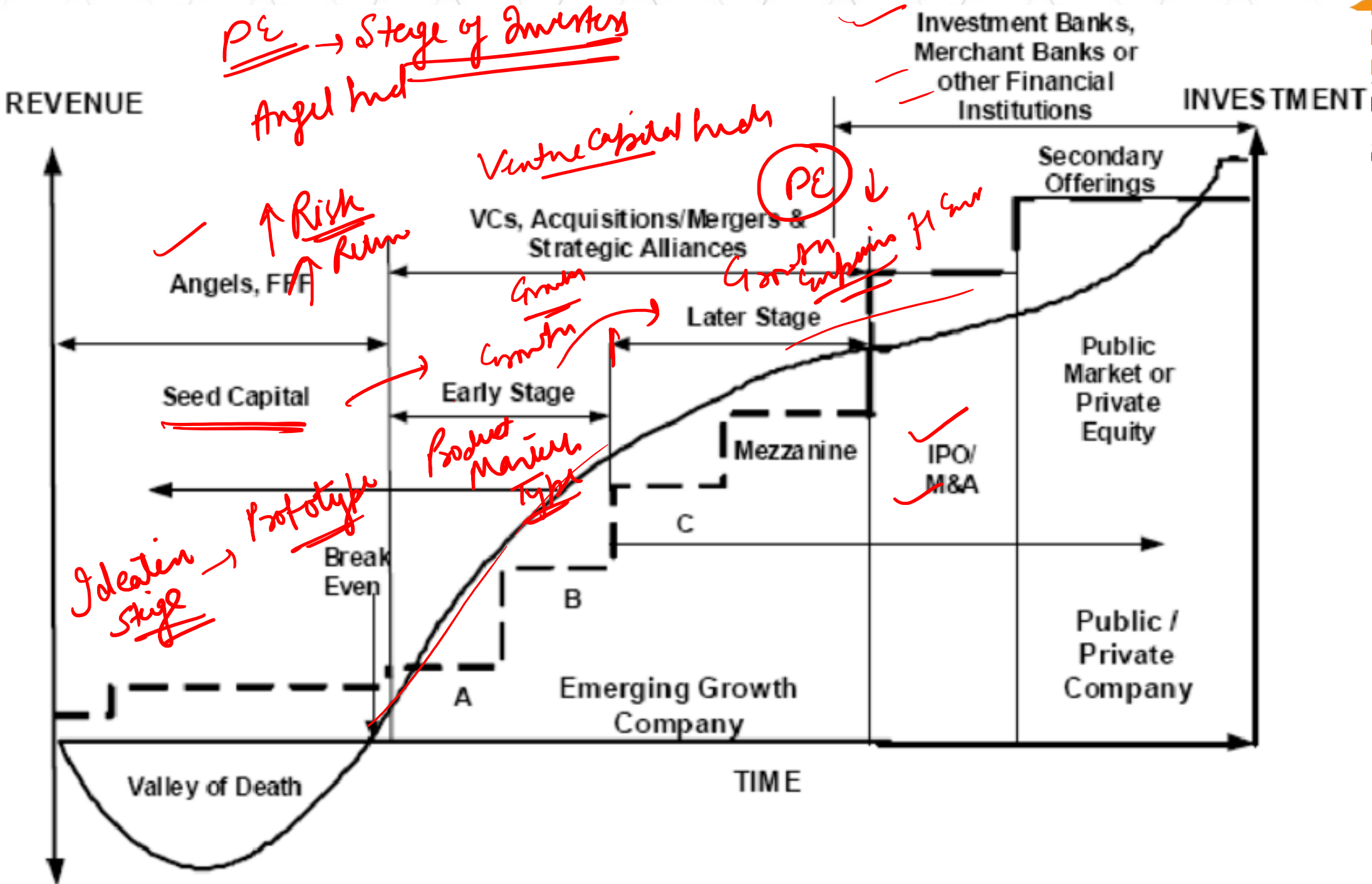


Hedge Funds

- https://www.youtube.com/watch?v=Cxj5_5yNM&ab_channel=Extractor
- https://www.youtube.com/watch?v=jZjuqyBtk-M&ab_channel=MoneyTalks

Private Equity (PE) Investments

- Investing in private company with an intent of taking them public.
- **Types of PE Investments:**
 1. Angel Investors ✓
 2. Venture Capital ✓
 3. Leveraged buyouts ✓
 4. Development capital or minority equity investors
 5. Distressed investing



Investment Banks,
Merchant Banks or
other Financial
Institutions

PE → Stage of Investors
Angel Ind

Venture Capital funds

↑ Risk
↑ Return

PE ↓

Growth
Growth

Creation stage
Prototype

Product Market Type

IPO/M&A

Public / Private Company

Public Market or Private Equity

Secondary Offerings

VCs, Acquisitions/Mergers & Strategic Alliances

Later Stage

Early Stage

Seed Capital

Angels, FFF

REVENUE

INVESTMENT

TIME

PE: structure and fees

- Private Equity investments are structured as limited partnerships
 1. General Partner:- Private equity firm
 2. Limited Partner:- PE Investors
- Committed capital: Amount of capital provided to the fund by investors
- The capital is usually drawn down over three to five years
 - Management fee is 1% - 3% of the committed capital
 - Incentive fee is typically 20% of the profits realized when the portfolio is liquidated.

PRIVATE EQUITY FUND STRUCTURE

FINANCIAL SPONSOR

INVESTORS

Mgmt. Co.

GP

CAPITAL

PORTFOLIO
CO. FEES

MGMT.
FEES

CARRIED
INTEREST

Private Equity Fund

Portfolio
Co.

Portfolio
Co.

Portfolio
Co.

Portfolio
Co.

Portfolio
Co.

Return

2 values

Investment

Venture capital (VCs)

- VCs are funds that invest in companies in the early stages of their development and have significant growth potential
- Venture capitalists are actively involved with the companies in which they invest in.

Stages of VC investing

1. **Formative stage:-** Earlier stage of a company when the company is in the process of being formed.
2. **Angel Investing:** Financing provided at the initial stage for accessing business plan market potential.
3. **Seed Stage:** For expansion after commercial production and but before IPO.
4. **Mezzanine Financing:** Refers to the capital provided to prepare the firm for an IPO

Leveraged buyouts (LBOs)

- In LBO, a company is acquired through significant debt financing.
- Consists of equity, bank debts and high yield bonds/ mezzanine finance
- Mezzanine financing: Debt on proffered shares that are subordinate to high yield bonds and carry warrants or conversion features

Types of LBOs

i. Management Buyouts (MBOs)

Current management team purchases and runs the company

ii. Management Buying (MBIs)

- External Management replaces the existing management and they run the company
- Note: Firms with high cash flows are attractive LBO candidate because their cash flow can be used to service and eventually pay low the debt.

Why LBO?

Leverage Buy out

Five to Ten Years



PE: Exit strategies

- The goal of PE firm is to revamp the new or underperforming business and exit at high valuations.
- **Exit Strategies**
 1. **Trade sale:** Selling company to a competitor or strategic buyer
 2. **IPO:** Company goes public and sells some or all shares to public
 3. **Recapitalization:** Company issues debt to fund dividend. It is a step towards exit.
 4. **Secondary Stage:** Sell the company to another private equity firm or a group of firms
 5. **Write off/ Liquidation**

M&A

PE: Potential Benefits and Risks

- Historically, the **return on PE funds have been higher** on average than stock returns
- **Low correlation with traditional investments** which helps in creating a diversified portfolio
- Private equity indices **rely on self reporting**, subject to survivorship, backfill and other biases

Note:

1. Survivorship Bias refers to the upward bias of returns if data of only existing firms is included.
2. Backfill Bias refers to bias introduced by including the previous performance data for firms recently added to a benchmark index.

PE: Company Valuation

1. **Market/ Comparables Approach:** Market or private transaction of similar companies are used to estimate the value of the company.
2. **Discounted Cash Flow Approach:** Present value of future cash flows are ascertained to estimate the value of the company.
3. **Asset Based Approach:** Liquidation or the fair value of the assets are used

Venture Capital Method

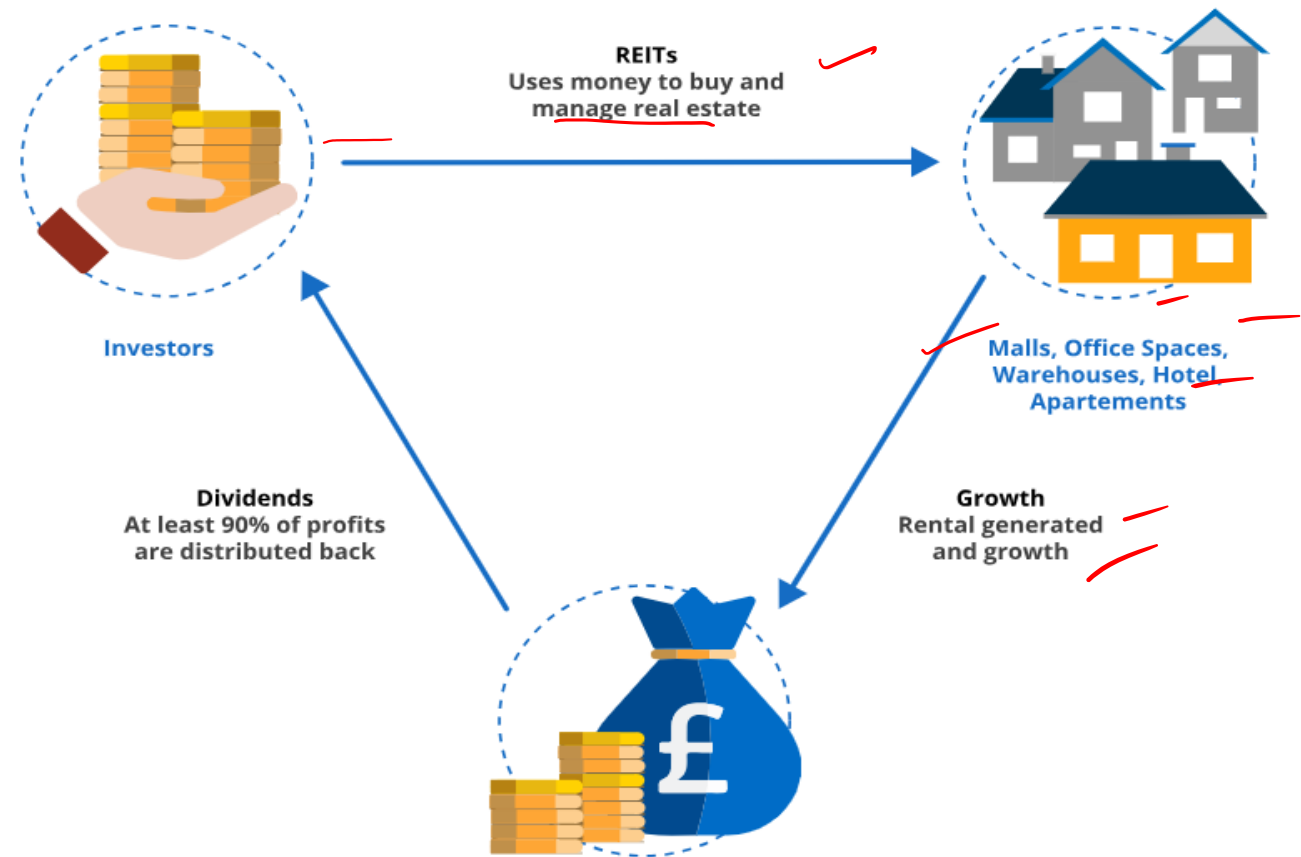
Very Similar to the Equity Valuation techniques, however there are other methods in the absence of traditional data

VC, Angel Investors

Real Estate

- Real Estate is a prominent alternative investment for investing into Land and or building of Residential or Commercial nature.
- Provides income from :
 - Rental Income ✓
 - Potential for Capital Gains ✓

Real Estate Investment Trusts (REITs)

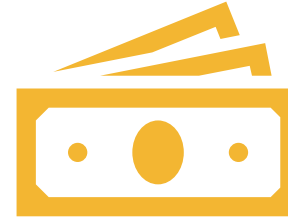




Residential Property ✓

Directs investment in real estate

Usually financed with debt (i.e. mortgage loan)



Commercial Property

Requires active and experienced management

Illiquid

Generates income from rent ✓

Long time horizon ✓

Large size of investment ✓

Home > Business > Blackstone reportedly plans to acquire major hotel properties in India

BUSINESS

Blackstone reportedly plans to acquire major hotel properties in India

by *Staff Writer* November 7, 2024

SHARE



Global asset manager Blackstone is reportedly eyeing acquisitions in India's hotel sector, targeting properties such as the Chennai Hilton and a partially completed Marriott near Bengaluru airport. Each acquisition is expected to cost around Rs 300-400 crore, as per industry sources.

Blackstone has been expanding its presence in hospitality, recently filing for an initial public offering (IPO) through Ventive Hospitality, a joint venture with Panchshil Group, to raise Rs 2000 crore. Ventive

Types of Real Estate Investments Continued...

Real Estate Investment Trust (REITs)

- REITs issues that trade publicly like shares of stocks
- Income is used to pay dividends

Other Real Estate assets

- ✓ • Timberland:- returns are depends on the expectations of the timber price in the future
- ✓ • Farmland Returns are based on
 - Land prices changes
 - Changes in commodity prices
 - Quality & quantity of crops produced

Reasons for investing in real estate

1. Potential for long term capital gain
2. Regular income in the form of rent
3. Low correlation with the traditional investments
4. Provides diversification to the portfolio
5. Acts as an inflation hedge

Real Estate Performance Measures

1. Appraisal Index

- Based a periodic index of property values
- Have low standard deviation

2. Repeat sales index

- Based on price change for properties that have been sold multiple times

3. REIT Indices

- Based on actual trading prices of REIT shares in the market

Real Estate Valuation

1. Comparable Sales Approach

Based on valuation of recent sales of similar properties

2. Income Approach

Estimate property value by calculating PV of expected future cash flows.

Or

By dividing net operating income by cap rate

$$V_0 = \frac{\text{NOI}}{r-g} \quad \text{Cap Rate} = r-g$$

Note: Cap rate is a discount rate minus growth rate

3. Cost Approach

Estimates the replacement cost property

Real Estate Due Diligence

- Property values vary because of domestic and global economic candidates.
- Variation in the managerial ability to select and manage real estate properties.
- Degree of leverage is important as high leverage magnifies risk.

Commodities

*oil & Com
Minerals
Energy*

- Commodities are physical products. The returns are contingent on the fluctuation in commodity prices.

Types of commodities investments

- Usually the investors take exposure to commodities through derivatives products like returns, forwards, options, swaps.

Exchange Traded Funds (ETFs)

- Buying stock of companies that are directly exposed to commodity

Commodity linked Equities

- Investing in shares of a company which produces a commodity.
- One major drawback is that the price movement of stock of price movement of commodity may not be perfectly correlated.

Types of Commodity Investments

- **Managed Future Funds**
 - Similar to hedge funds and actively managed.
 - Invest in commodity futures and forwards.
- **Individual Management Accounts** usually for HNIs and institutions
- **Specific Commodity Sector:-** Have direct exposure to a certain commodity like oil & gas, precious metal, grains, etc.

Commodity Performance, Benefits and Risks

Generally the return on commodities have been lower than global stocks/ bonds

Commodities exhibit lower sharp ratios due to lower return and high volatility in prices.

Act as a good inflation hedge.

Low correlation with traditional investments – provides diversification benefits.

Commodity Prices and Investments

Commodity prices are a function of

1. Supply and demand ✓
2. Cost of production ✓
3. Value to users ✓
4. Global economic conditions
5. Govt. policy
6. Weather

Difference between MF / PMS / AIF

↓
Mutual
Fund

↓
Portfolio
Service

↓
Alternative
Investment
Fund

MF VS PMS VS AIF



	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternate Investment Funds (AIFs)
Definition	A financial vehicle made up of a pool of money collected from investors to invest in stocks, bonds, money markets and other assets.	A service offered by a portfolio manager with investment in stocks, fixed income, debts, cash and other individual securities and can be tailored to meet specific investment objective.	A privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.
Governance / Regulation	SEBI (Mutual Funds) Regulations 1996	SEBI (Portfolio Managers) Regulations 1993	SEBI (Alternative Investment Funds) Regulations 2012
Approach	Investor money is pooled	A separate Demat account i.e. a separate portfolio for every client is maintained.	Investor money is pooled
Types ^	MFs are divided into 5 broad categories and 36 sub categories – (i) Equity Schemes (10) (ii) Debt Schemes (15) (iii) Hybrid Schemes (7) (iv) Solution Oriented Schemes (2) (v) Other Schemes (2)	<ul style="list-style-type: none"> • Discretionary PMS (the clients funds are managed by the portfolio manager who is responsible for stock selection and executing investment decisions) and • Non-discretionary PMS (consultative investment approach wherein the portfolio manager suggests investment ideas) 	<ul style="list-style-type: none"> • Category I - Venture capital, Infrastructure, Angel and social venture funds • Category II - Real estate funds, Private equity funds (PE funds), funds for distressed assets • Category III - Hedge funds and private investment in public equity funds.
Number of Investors	There is no cap specified on the number of investors		The maximum number of investors to any AIF scheme cannot exceed 1,000

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	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternate Investment Funds (AIFs)
Minimum Investment	Investor can invest in select MFs with as low as Rs. 100 through the SIP mode or a minimum lumpsum investment ranges from Rs. 1000 to Rs. 5000.	The minimum investment size is Rs. 50 lakhs	All AIFs in India except angel fund require a minimum of Rs. 1 crore investment.
Liquidity	Lock in Period – Solution Oriented Schemes – 5 years ELSS – 3 years For the remaining no lock in period but exit load applicable.	Liquidity is relatively lower than that of MF – as investors can withdraw at the discretion in the manner specified in the agreement with exit load applicable in the manner specified therein.	AIFs are least liquid compared to MF & PMS. Category I & II AIF are closed ended with over 3 years gestation period. Category III AIF may be closed ended or open ended. Usually they are closed ended with applicable exit load after the initial hard lock in period.
Disclosure	SEBI has directed MFs to share details of risk, performance and portfolio data with the board / investors / distributors / website.	Required to make timely disclosures to the client. But these are not freely available to the public. Moreover, it is not easy to assess and compare the performance of different PMS products.	Category I and II AIFs and the Category III AIFs which do not undertake leverage are required to submit report to SEBI on a quarterly basis while Category III AIFs which undertake leverage are required to submit the reports on a monthly basis. Thus, AIFs disclosure requirement are the least stringent as compared to MFs and PMS.
Income Tax Benefit	Deduction of Rs.1.50 lakhs under section 80 C under Income Tax Act of 1961 only by investing in ELSS scheme.	No Tax Benefit	

Technology

P2P Lending & Faircent

Peer to Peer

↓
first market place

Dr. Monika Dhochak

What is P2P lending?

It is an emerging internet-based application where individuals can borrow and lend money to each other without the financial institutions.



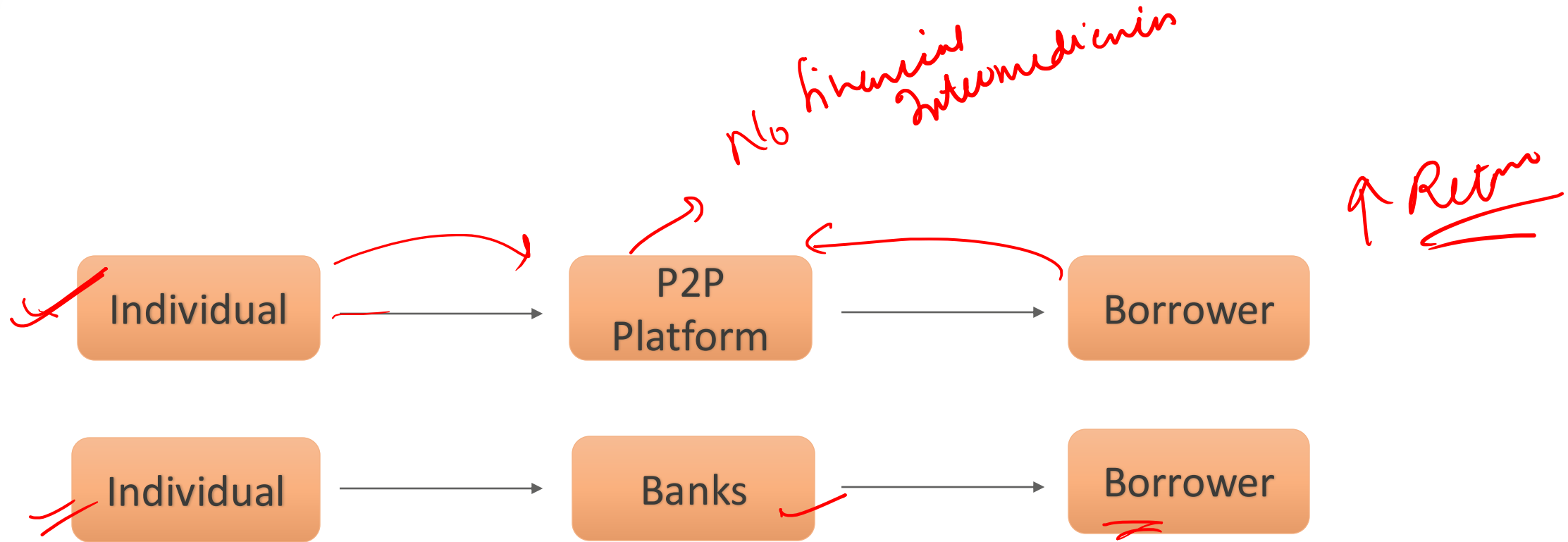
P2P Platforms

- P2P lending platforms are largely tech companies registered under the companies Act 1956/2013.
- They match Borrowers and lenders
- They act as a facilitators and provide additional services

↓
Credit Score
Credit pangya apaidy | Collection of loans
Dr. Mohika Dhochak

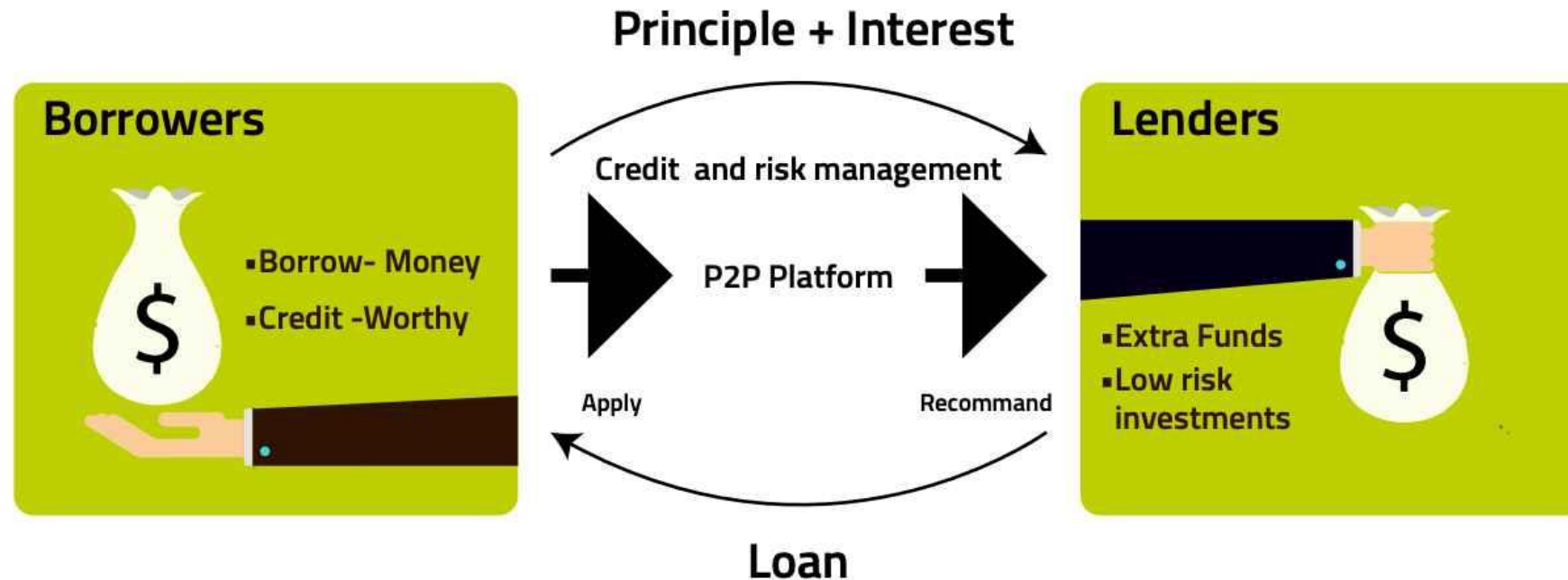


How P2P lending is different than Banks?





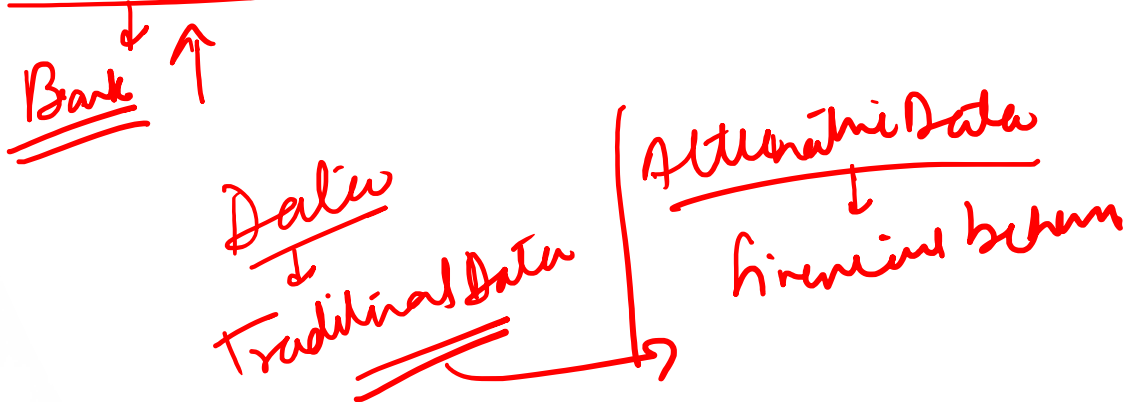
If a platform can be there in Amazon, Uber, Why not in Banking?



Why did P2P lending actually come up?

- There is a demand, so let's get the ~~supply side~~ of people to invest
- Market segment of borrowers which banks did not service
- Thin on credit history, poor scores
- First time credit borrowers
- Online only, digitized – Cost of operation will be lower
Spread (NIM) that platform has to charge will be lower

↓ Cost of operation



Why Platform business models are so attractive?

- Two-sided Business Model
- Network Effect
 - “Winner takes all market”

Some articles

- <https://www.livemint.com/money/personal-finance/emergence-of-p2p-lending-when-banking-meets-risk-11685640977888.html>
- <https://www.livemint.com/industry/banking/p2p-peer-to-peer-lending-rbi-action-liquiloans-lendenclub-rbi-notices-p2p-lending-platforms-rbi-guidelines-nbfc-p2p-11728987012577.html>

Thank you 😊