

**Annexure II: Test Objectives**  
**NISM-Series-XIX-E: Category III Alternative Investment Fund Managers Certification**  
**Examination**

**Section A: Basics of Investments**

**Chapter 1: Investments Landscape**

- 1.6 Define Investment
- 1.7 Distinction between Investment and Speculation
- 1.8 Know the objectives of Investments
- 1.9 Estimating the required rate of return
  - 1.9.1 Concept of Nominal rate of return, Real Risk-free rate and Expected Inflation
  - 1.9.2 Concept of Risk Premium
  - 1.9.3 Understand the various types of risks:
    - Business Risk
    - Financial Risk
    - Liquidity Risk
    - Exchange rate Risk
    - Political Risk
    - Geopolitical Risk
    - Regulatory Risk
    - Market Risk
    - Interest Rate Risk
  - 1.9.4 Understand the relationship between risk and return
- 1.10 Overview of Indian Securities Markets

**Chapter 2: Types of Investments**

- 2.1 Distinguish between Traditional investments and Alternate investments.
- 2.2 Know the types of Traditional Investments and their role and characteristics
  - 2.2.1 Equity
  - 2.2.2 Fixed Income Securities
  - 2.2.3 Derivatives
  - 2.2.4 Money Market Instruments
- 2.3 Outline the different types of alternate investments:
  - 2.3.1 Venture Capital (including venture debt)
  - 2.3.2 Private Equity
  - 2.3.3 Private Debt
  - 2.3.4 Hedge Funds (including CDS)
  - 2.3.5 Real Estate and Infrastructure
  - 2.3.6 Distressed Securities
  - 2.3.7 Other (sunrise sector funds, special situation funds, fund of funds etc)
- 2.4 Know the channels for making investments

- 2.4.1 Direct investments
  - Understanding the role of Registered Investment Advisers (RIAs)
- 2.4.2 Investments through managed portfolios
  - Mutual Funds
  - Collective Investment Schemes
  - Portfolio Management Services
  - Alternative Investment Funds
  - Specialised Investment Funds
- 2.5 Explain the role of Alternate Investments in overall portfolio with regard to the benefits and limitations of Alternate Investments.
- 2.6 Trace the global evolution and growth of Alternate investments and its transformation over time to its present context.
  - 2.6.1 Compare the investments (including taxation aspects) made by Hedge Funds globally, in USA, European and Asia Pacific Markets, as compared to investments made by Hedge Funds set-up in India

### **Chapter 3: Introduction to Modern Portfolio Theory and Capital Market Theory**

#### **Modern Portfolio Theory (MPT):**

15

- 3.1 Discuss the Framework for constructing portfolios – Modern Portfolio Theory
- 3.2 Know the Assumptions of the theory
- 3.3 Calculation of expected rate of return for individual security
- 3.4 Calculation of Variance of return for individual security
- 3.5 Calculation of expected rate of return for a portfolio
- 3.6 Calculation of Variance of return for a portfolio
  - 3.6.1 Calculating risk for two securities portfolio
- 3.7 Understand the concept of Efficiency Frontier
- 3.8 Know the Portfolio Optimization process
- 3.9 Discuss Estimation issues

#### **Capital Market Theory (CMT):**

16

- 3.10 Introduction to Capital Market Theory
- 3.11 Understand the Assumptions of Capital Market Theory and the implications of relaxing these assumptions
- 3.12 Discuss the Capital Market line
- 3.13 Understand the Capital Asset Pricing Model (CAPM)
- 3.14 Discuss the Security Market Line
- 3.15 Understand the concept of Market Portfolio

## Section B: Understanding the AIF Ecosystem

### Chapter 4: Alternative Investment Funds in India and its Suitability

- 4.1 Trace the evolution and growth of AIFs in India.
- 4.2 Identify the factors that enable India to be one of the top AIF markets in the world.
- 4.3 List and compare the fund categories as per SEBI (Alternative Investment Funds) Regulations 2012.
  - 4.3.1 Category I AIF
    - Venture Capital Fund
    - Angel Fund
    - Infrastructure Fund
    - SME Fund
    - Social Impact Fund
    - Special Situations Fund
    - Corporate Debt Market Development Fund
  - 4.3.2 Category II AIF
    - Private Equity Fund
    - Debt Fund
  - 4.3.3 Category III AIF
- 4.4 Analyse the suitability of AIF products to particular classes of investors (based on Investors' risk-return profile)
  - 4.4.1 Ascertain the suitability of a Category III AIF
  - 4.4.2 Describe asset allocation for HNI and Institutional investors looking to invest in AIFs.
- 4.5 Discuss the size and segments of AIF market in India, no. of AIFs registered with SEBI.
- 4.6 Identify the types of asset classes and products used by Category III AIF and how they are different from Traditional Investments such as Mutual Funds, Specified Investment Funds and PMS
- 4.7 Assess the role of AIF in Portfolio Diversification
- 4.8 Interpret the use of AIF as a Risk Management tool:
  - 4.8.1 Alpha Management
  - 4.8.2 Beta Management

### Chapter 5: Alternative Investment Fund Ecosystem

17

- 5.1 Explain the concepts prevalent in the AIF industry:
  - 5.1.1 AIF Ecosystem:
    - Investors
    - Sponsors
    - Trustees
    - Investment Managers
  - 5.1.2 Crowdfunding and Corporate Venture Funding
  - 5.1.3 Co-investments
  - 5.1.4 Service Providers
    - Fund Administrators

- Fund Infrastructure
- Distributors and Placement Agents
- Tax Advisors
- Registrar and Transfer Agents
- Legal Advisors
- Custodian
- Auditors
- Investment Advisers
- Merchant Bankers
- Independent Valuers
- 5.1.5 Capital Committed and Sponsor Commitment
- 5.1.6 Drawdown and Capital Invested
- 5.1.7 Due Diligence
- 5.1.8 Environment, Social and Governance (ESG)
- 5.1.9 First Close and Final Close
- 5.1.10 Green shoe option
- 5.1.11 Fees and Expenses:
  - Lock-in Period and Exit Load
  - Management Fees
  - Set-up Costs and Operational Expenses
  - Hurdle rate and High Watermark
- 5.1.12 Additional returns (carry) and Performance Fees
- 5.1.13 Distributions and Distribution Waterfall
  - Clawback
- 5.1.14 Term Sheet/ Summary of Principal Terms (SOPT)
- 5.1.15 Private Placement Memorandum (PPM)

## **Chapter 6: Alternative Investment Fund Structuring**

18

- 6.1 Explain the concept of 'pooling' and how it is different from individual portfolio management.
- 6.2 Identify the main considerations in deciding the geographical jurisdiction for 'pooling' from an offshore Investor perspective for an India focussed fund.
- 6.3
- 6.4 Summarise the overall regulatory perspective and tax in the context of setting up of an India focussed AIF.
- 6.5 Identify and explain the main pooling structures possible in India for a domestic AIF.
- 6.6 Discuss with reference to the Trust Structure / LLP Structure/ Company structure, the composition of a domestic AIF in India.
- 6.7 Discuss the regulatory implications of fund structure on domestic AIF investors.
- 6.8 Explain the common fund structures of AIF:
  - 6.8.1 On-shore and Off-shore Funds
  - 6.8.2 Unified and Co-Investment Structures
  - 6.8.3 Parallel Structures and Master Feeder Structures

## Chapter 7: Fee Structure and Fund Performance

### Fee Structure:

19

- 7.1 Describe and calculate Management Fees and Incentive Fees charged by AIF. Discuss the concept of Total Fee.
- 7.2 Discuss the importance of Hurdle Rate, when computing Fees and forming the Fee Structure of AIF.
- 7.3 Explain the principle of High watermark and catch-up and discuss its importance.
  - 7.3.1 Calculate and analyse Pre and Post fees returns of an AIF.
  - 7.3.2 Analyse the impact of GST on Fees

### Fund Performance Evaluation:

#### Risk Metrics:

- 7.4 Summarise the risk of adverse selection by the Investors (contributory) based on various criteria that would impact their interests
- 7.5 Interpret the key risk areas based on the disclosure in the Private Placement Memorandum (PPM):
  - 7.5.1 Investor Level Risks (for both equity and debt funds under AIF)
  - 7.5.2 Governance/Fund Level Risks (for both equity and debt funds under AIF)
- 7.6 Explain the types of risks involved in AIF (such as Market risk, Liquidity risk etc.)
- 7.7 Discuss the risk measures used to analyse risks for Category III AIFs:
  - 7.7.1 Standard Deviation
  - 7.7.2 Skewness and Kurtosis
  - 7.7.3 Maximum Drawdown

#### Return Metrics:

- 7.8 Discuss the main approaches to evaluate Fund Performance
  - 7.8.1 The Internal Rate of Return (IRR) method – Gross and Net IRR computation with scenario analysis and illustrations
    - Explain with scenario analysis reasons for differential IRRs in Fund Performance
  - 7.8.2 Discuss the concepts of Total Value to Paid-in-Capital (TVPI), Distributions to Paid-in-Capital (DPI) and Residual Value to Paid-in-Capital (RVPI) and their application to benchmarking with industry performance.
- 7.9 Discuss the other return measurement metrics used in Alternative Investments
  - 7.9.1 Direct Alpha
- 7.10 Explain the concept of Multiple on Invested Capital (MOIC)
- 7.11 Analyse the impact of direct and indirect taxes on performance of AIFs
  - 7.11.1 Calculate Pre and Post Tax Returns of AIFs

#### Risk-Return Metrics:

- 7.12 Explain various risk-return metrics
  - 7.12.1 Sharpe Ratio
  - 7.12.2 Treynor Ratio

### 7.12.3 Value at Risk

## Chapter 8: Indices and Benchmarking

20

8.1 Understand what is an Index

8.2 Know the Uses of Indices

8.3 Discuss the Factors differentiating the indices

8.3.1 Price weighted index

8.3.2 Value weighted index

8.3.3 Equal weighted index

8.3.4 Fundamental weighted and factor-based index

8.4 Know how indices are created – Index Methodologies

8.5 Discuss the Stock market indices

8.5.1 Broad based indices

8.5.2 Market capitalization-based indices

8.5.3 Style indices

8.5.4 Capitalization and style indices

8.5.5 Sectoral index

8.5.6 Total Return Index

8.5.7 Dollar denominated index

8.5.8 Global Equity Indices

8.5.9 MSCI Indices for India

8.6 Discuss the Bond market indices

8.6.1 Government Securities Index

8.6.2 Corporate Bond Index

8.6.3 High Yield Bond Index

8.6.4 Global Bond Index

8.6.5 Total Return Index

8.7 Discuss the Stock-Bond (Composite) Indices

8.8 Discuss about Performance Benchmarking i.e. relevant benchmark for the AIFs, which has the similar characteristics and risk-return profile, as the fund under consideration. Discuss suitability of appropriate benchmarks for AIF, based on its investment strategy and support with example.

8.8.1 Benchmarking Agencies

8.8.2 Role of a benchmark in evaluating alpha generated by AIF.

## Chapter 9: Legal Documents and Negotiations

Understand the broad description and purpose of the type of documentations used in AIF investment activity.

21

9.1 Fund Documentation

9.1.1 The Private Placement Memorandum (PPM)

- Additional Disclosures under PPM
- Investor Charter
- Disclosure of Complaints

- PPM Audit
- Material changes in PPM
- 9.1.2 The Trust Indenture (Trust Document/ Limited Liability Partnership Deed/ Memorandum and Articles of Associations)
- 9.1.3 The Subscription (Investor Contribution) Agreement
  - Side Letters with Investors
- 9.1.4 Preferential Rights to Investors (In accordance with Pari-Passu Rights)
- 9.1.5 Investment Management Agreement
- 9.1.6 Support Service Agreements
  - Distribution Agreement (between the Investment Management Company and a Distributor)
  - Agreement with Merchant Banker
  - Agreement with Custodian
  - Agreement with Depository Participants

## Section C: Managing AIF Investments – Category III

### Chapter 10: Investment Strategies

#### Investment Strategies

22

- 10.1 Discuss common Equity-Market Investment Strategies used by Cat III AIF:
  - 10.1.1 Long-only Equity Strategy
  - 10.1.2 Long/Short Equity strategy
  - 10.1.3 Market-Neutral Strategy
  - 10.1.4 Directional and Short-bias Strategies
- 10.2 Discuss Global-Macro strategy
- 10.3 Discuss Convertible Arbitrage strategy
- 10.4 Discuss common Event-driven Investment Strategies used by Cat III AIF:
  - 10.4.1 Activist Strategy
  - 10.4.2 Merger Arbitrage Strategy
  - 10.4.3 Pre-IPO Strategy

### Chapter 11: Governance of Funds and Due Diligence

#### Investor Due Diligence by AIFs

23

- 11.1 Explain Investor Due Diligence (IDD) and who performs it. Discuss the principal areas of IDD.
- 11.2 Outline the scope, coverage and brief overview of Investor Due Diligence (IDD).
- 11.3 Identify the Definitive Agreements entered into as part of the deal documentation by the fund and the investee company.

#### Governance of Funds

- 11.4 Evaluate the role of the Investment Committee, transparency and governance standards in a Fund.
- 11.4.1 Role of Fund Governance
  - 11.4.2 Fund Governance Structure
  - 11.4.3 Investment Committee (IC) Approvals
  - 11.4.4 Investor Advisory Committee
  - 11.4.5 Role of Board of Directors of AMC
  - 11.4.6 Conflict of Interest Issues
  - 11.4.7 Investor Grievances and Dispute Resolution
  - 11.4.8 Managing the stakeholders in PE deals
- 11.5 Summarise the process of decision making in a fund and internal measures to be taken to avoid conflict of interest. Discuss the role of human capital and fund manager and its team.
- 11.6 Explain the concept of Co-investments in AIFs
- 11.7 Discuss the Code of Conduct of Investment Managers of AIF
- 11.8 Discuss industry best practices

## Chapter 12: Valuation

24

- 12.1 Describe briefly the general approaches to valuation of AIF investments in investee companies
- 12.1.1 The Income Approach using DCF methodology
  - 12.1.2 The Market Approach using Relative Valuation
    - EBITDA Multiple
    - Price to Book Value Multiple
    - Price to Earnings Multiple
- 12.2 Distinguish between Enterprise Value and Equity value of a company.
- 12.3 Outline the general approaches to valuation of Debt fund investments.
- 12.4 Summarise the general approach to Fund Valuation and the valuation of Investor interest in a fund.
- 12.4.1 Valuation of AIF Portfolio Investments (Investee Companies) based on the IPEV Valuation Guidelines
- 12.5 Discuss the concept of Net Asset Value (NAV). Describe the Mark-to-Market (MTM) process used by Cat III AIF to value NAV.
- 12.6 Describe briefly the valuation techniques used by a Category III AIF to value the NAV of the underlying portfolio:
- 12.7 Portfolio of Liquid and Illiquid Securities
- 12.8 Positions in Commodity Derivatives and Equity Derivatives Markets (MTM Derivatives)
- 12.9 Positions in Money Market Instruments and Long-term Fixed Income Securities
- 12.10 Differentiate between the general approach to compute the NAV for Category III AIF and NAV attributable to a Series of Units issued to investors.
- 12.11 Discuss the role of third-party registered valuers and the frequency of such valuation. Also specify the timeline for generation of valuation reports and limitation of valuation reports.

## Chapter 13: Fund Monitoring, Reporting and Exit

25

- 13.1 Monitoring Alternative Investment Fund Progress and Performance
  - 13.1.1 Context and Scope of Effective Fund Monitoring
- 13.2 List the periodic reporting process of the Fund / Investment Managers to the Investors under their:
  - 13.2.1 Regulatory obligations
    - Specific Transparency and Periodic Disclosure Requirements
    - Maintenance of Records
    - Submission of reports to SEBI
  - 13.2.2 Contractual obligations
  - 13.2.3 Additional information
- 13.3 Describe a reporting template.
  - 13.3.1 Conflicts and Concerns in Fund Reporting
- 13.4 Outline the available exit options for an AIF
  - 13.4.1 Exit from its investee/ portfolio companies
  - 13.4.2 Exit due to Material Changes in PPM
  - 13.4.3 Change in Manager/ Change in control
  - 13.4.4 Other exit scenarios
- 13.5 Compare IPO, Strategic Sale (M&A), Secondary sale, Buyback and Liquidation as exit options.
- 13.6 Discuss about winding up of an AIF

## Section D: Taxation and Regulatory Framework

### Chapter 14: Taxation

26

- 14.1 Income streams for the AIF from its investments
- 14.2 Concept of Double Tax Avoidance Agreement (DTAA) and General Anti-Avoidance Rules (GAAR).
- 14.3 Investor reporting requirements
- 14.4 Identify the tax implications on transfer of units of AIF by the investors
- 14.5 Explain the tax-regime for Category III AIFs in India.
- 14.6 Taxation aspects of a category III AIF
  - 14.6.1 General principles trust taxation
  - 14.6.2 Concept of Determinate vs. Indeterminate trust
  - 14.6.3 Concept of Revocable vs. Irrevocable trust
  - 14.6.4 General principles of LLP taxation
- 14.7 Explain taxation on distribution on / withdrawal of units of Cat III AIFs.
- 14.8 Explain taxation on transfer of units of AIF by investors.
- 14.9 Withholding tax obligations and compliances
- 14.10 Discuss about the Indirect Taxes as applicable to AIFs
  - 14.10.1 GST Regime
  - 14.10.2 Stamp Duty and Local Taxes

## Chapter 15: Regulatory Framework

Discuss the general framework of regulations and their purpose.

### A. SEBI (Alternative Investment Funds) Regulations, 2012

27

- 15.1 Outline the registration process of AIFs and the eligibility criteria to seek registration
  - 15.1.1 Registration requirements
  - 15.1.2 Registration criteria and Documentations
  - 15.1.3 Conditions for Registration
- 15.2 List the principal and general obligations of Sponsors and Investment Managers of AIFs
  - 15.2.1 Sponsor and Manager Commitment
- 15.3 Concept of open ended and closed ended funds
  - 15.3.1 Examine whether Category III AIFs can be open-ended and closed-ended
  - 15.3.2 Outline the eligibility requirements for listing of a closed-ended scheme of a Category III AIF on a recognized stock exchange platform. List the benefits of such listing.
- 15.4 Tenure of Fund and Schemes
- 15.5 Requirements with regard to subscriptions to the fund by investors
- 15.6 Discuss the concepts of Accredited Investor, Accreditation Agencies and the Accredited Investor Framework:
  - 15.6.1 Accredited Investors
  - 15.6.2 Accreditation Agency
  - 15.6.3 Large value fund for Accredited Investors
- 15.7 Raising of Corpus Capital and Role of PPM and fund documents
- 15.8 Regulatory framework applicable to investments
  - 15.8.1 General Investment Conditions for all AIFs
  - 15.8.2 Specific Investment Conditions for Category III AIFs
- 15.9 List General Obligations and Responsibilities of a Category III AIFs
  - 15.9.1 General Obligations
  - 15.9.2 Code of Conduct
  - 15.9.3 Exemption from enforcement of the regulations in special cases
- 15.10 List the periodic and exceptional disclosures and reporting to be made by AIFs

### B. Foreign Exchange Management Act, 1999

- 15.11 Explain briefly the concept of foreign direct investment (FDI) and its economic significance for India.
- 15.12 Analyse why there are restrictions on FDI in Indian companies and on full convertibility of the rupee.
- 15.13 Identify when the FDI policy under FEMA gets attracted to AIF investments by foreign investors.
- 15.14 Outline the principal investment requirements under FEMA as are applicable to AIF investments

#### **D. SEBI (Prohibition of Insider Trading) Regulations and SEBI (PFUTP) Regulations**

15.15 Illustrate the applicability of SEBI (Prohibition of Insider Trading) Regulations and SEBI (PFUTP) Regulations for Category III Funds and discuss the importance of relevant disclosures by the Category III AIF, as per these regulations.

#### **E. Prevention of Anti-Money Laundering Act**

15.16 Demonstrate the importance of disclosures made by a Category III AIF under the Prevention of Anti-Money Laundering Act

#### **F. SEBI (ICDR) Regulations**

15.17 Pricing of securities issued in IPO

15.18 Lock-in restriction in case of securities issued in IPO

15.19 Preferential Allotment of Shares in a QIP

15.20 Lock-in Restriction in case of Preferential Allotment

15.21 Sale of Shares by a Category III AIF, in an Offer for Sale (OFS)

#### **G. SEBI (FPI) Regulations**

15.22 Relevance of SEBI (FPI) Regulations for category III AIFs

#### **H. Other Regulations**

15.23 Discuss the regulatory and reporting requirements under FATCA and CRS

#### **Glossary of Terms**