

Annexure II – Test Objectives

NISM-Series-XIX-A: Alternative Investment Funds (Category I and II) Distributors Certification Examination

Unit 1 - Overview of Alternate Investments

- 1.1. Distinguish between Traditional investments and Alternate investments
- 1.2. Outline the different types of alternate investments
 - 1.2.1. Venture Capital
 - 1.2.2. Private Equity
 - 1.2.3. Real Estate
 - 1.2.4. Commodities
 - 1.2.5. Others
- 1.3. Trace the global evolution and growth of Alternate investments and its transformation over time to its present context
- 1.4. Distinguish between 'alpha' investing approach and market based investment approach ('beta').
- 1.5. Explain the role of AIFs in overall portfolio with regard to the benefits and limitations of AIF.

Unit 2 – Alternative Investment Funds in India

- 2.1. Trace the evolution and growth of AIFs in India. (Emphasize on the size of the industry in India)
- 2.2. Identify the factors that enable India to be one of the top AIF markets in the world
- 2.3. Discuss the trends that have emerged post the financial crisis of 2008 that are shaping the emerging contours of AIF industry in India
- 2.4. State and Compare the fund categories as per SEBI (Alternative Investment Funds) Regulations 2012
- 2.5. Analyse the suitability of the AIF products to particular classes of investors
- 2.6. Discuss the size and segments of the AIF market in India, no. of AIFs registered with SEBI

Unit 3 - Concepts in Alternative Investment Funds industry

- 3.1. Explain the concepts prevalent in the AIF industry
 - 3.1.1. Private Capital Ecosystem
 - 3.1.1.1. Investors
 - 3.1.1.2. Investment Managers
 - 3.1.1.3. Placement Agents/ Distributors
 - 3.1.1.4. Custodians
 - 3.1.1.5. Sponsors
 - 3.1.1.6. Trustees
 - 3.1.1.7. Co-investments
 - 3.1.2. Due Diligence
 - 3.1.3. Sponsor commitment
 - 3.1.4. Capital committed

- 3.1.5. Capital invested
- 3.1.6. Drawdown
- 3.1.7. Fees & Expenses
- 3.1.8. Additional returns
- 3.1.9. Term Sheet/ Summary of Principal Terms (SOPT)
- 3.1.10. Private Placement Memorandum (PPM)
- 3.1.11. First close and Final close
- 3.1.12. Environment, Social and Governance (ESG)

Unit 4 – Regulatory Framework – Indian Context

Discuss the general framework of regulations and their purpose.

A. SEBI ALTERNATIVE INVESTMENT FUND) REGULATIONS, 2012

- 4.1. State the purpose and disclosure requirements by SEBI at the time of registration of AIFs
- 4.2. Outline the regulatory framework applicable to investment restrictions, disclosures and alterations.
- 4.3. State the requirements with regard to subscriptions to the fund by investors.
- 4.4. Describe briefly the role of a PPM and its requirements under the regulations.
- 4.5. Analyse why Category I and II AIFs are allowed only to be closed ended funds.
- 4.6. State in brief, the important general investment conditions applicable to Category I and Category II funds.
- 4.7. State in brief the principal requirements of Angel funds as a sub-category.
- 4.8. List the principal and general obligations of Sponsors and Investment Managers of AIFs.
- 4.9. Analyse the requirements for periodic valuation under the regulations.

B. FOREIGN EXCHANGE MANAGEMENT ACT, 1999

- 4.10. Explain briefly the concept of foreign direct investment (FDI) and its economic significance for India.
- 4.11. Analyse why there are restrictions on FDI in Indian companies and on full convertibility of the rupee.
- 4.12. Identify when the FDI policy under FEMA gets attracted to AIF investments by foreign investors.
- 4.13. Distinguish between the FDI and FVCI routes as available routes for alternative investment to foreign investors.
- 4.14. Outline the principal investment requirements under FEMA as are applicable to AIF investments.

Unit 5 - Alternative Investment Fund Structuring

- 5.1. Explain the concept of 'pooling' and how it is different from individual portfolio management.
- 5.2. Identify the main considerations in deciding the geographical jurisdiction for 'pooling' from an offshore Investor perspective for an India focussed fund.
- 5.3. Summarise the overall regulatory perspective and tax in the context of setting up of an India focussed AIF.

- 5.4. Compare the Unified Structure with the alternative of having two separate funds for domestic and offshore investors.
- 5.5. Compare the Unified Structure with an Offshore Fund Structure for an India focussed AIF.
- 5.6. Identify and explain the main pooling structures possible in India for a domestic AIF.
- 5.7. Discuss with reference to the Trust Structure / LLP Structure, the composition of a domestic AIF in India.
- 5.8. Discuss the regulatory implications of fund structure on domestic AIF investors.

Unit 6 - Risk and Return - Investor and Fund Perspective

- 6.1. Summarise the risk of adverse selection by the Investors (contributory) based on various criteria that would impact their interests
- 6.2. Interpret the key risk areas based on the Disclosure Document issued by a prospective fund – the Private Placement Memorandum (PPM) under the following categories:
 - 6.2.1. Investor Level Risks (for both equity and debt funds under AIF)
 - 6.2.2. Governance/Fund Level Risks (for both equity and debt funds under AIF)
- 6.3. Discuss the main approaches to evaluate Fund Performance
 - 6.3.1. The Internal Rate of Return (IRR) method – Gross and Net IRR computation with scenario analysis and illustrations
 - 6.3.1.1. Explain with scenario analysis reasons for differential IRRs in Fund Performance
 - 6.3.2. The J Curve approach and how to view the J Curve in conjunction with the IRR.
 - 6.3.3. 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.
- 6.4. Explain the concept of Multiple on Invested Capital (MOIC)
- 6.5. Discuss the fee structure at the fund level (to be borne by investors) and the costs to be borne at the investment management level
 - 6.5.1. Illustrate the fee structure and commercial arrangements involving expense calculations and operating costs
- 6.6. Outline the concepts of additional return, clawback and waterfall as applied in commercial arrangements between investors and investment managers

Unit 7 -Investment Process & Governance of Funds

- 7.1. Discuss the stages in an AIF investment deal
 - 7.1.1. Initial assessment
 - 7.1.2. Business Due Diligence
 - 7.1.3. Negotiations by the Investment Managers
 - 7.1.4. Summarise the purpose, principal terms and process of finalising a term sheet.
- 7.2. Explain Investor Due Diligence (IDD) and who performs It. Discuss the principal areas of IDD
- 7.3. Outline the scope, coverage and brief overview of Investor Due Diligence (IDD).
- 7.4. Identify the Definitive Agreements entered into as part of the deal documentation by the fund and the investee company.
- 7.5. Distinguish the important specific rights negotiated by the fund with the investee company with suitable illustrations.

- 7.6. Evaluate the role of the Investment Committee, transparency and governance standards in a Fund.
- 7.7. Summarise the process of decision making in a fund and internal measures to be taken to avoid conflict of interest.

Unit 8 – Fund Due Diligence – Investor Perspective

- 8.1. Explain the scope of product evaluation to be done by a distributor/ investor based on the disclosures provided in the PPM by a fund.
- 8.2. Outline the concept of ‘Key man clause’ and its importance in investment decision making.
- 8.3. Relate to the broad due diligence aspects relevant to a contributory to make an informed investment decision.
- 8.4. Explain the subjective assessment of the Investment Manager by the investor
 - 8.4.1. Ownership structure and Continuing Interest
 - 8.4.2. Alignment of interest
 - 8.4.3. Competing or outside interests
- 8.5. Point out the approach to sales strategy formulation by a distributor based on product due diligence from a PPM

Unit 9 – Legal Documents and Negotiations – Investor Perspective

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

- 9.1. Fund Documentation
 - 9.1.1. The Private Placement Memorandum (PPM)
 - 9.1.2. The Trust Indenture
 - 9.1.3. The Subscription Agreement
 - 9.1.4. Preferential Rights to Investors
 - 9.1.5. Investment Management Agreement
 - 9.1.6. Distribution Agreement between the Investment Management Company and a Distributor
- 9.2. Illustrate with scenario-based examples how legal structure and documentations help in investor protection

Unit 10 – Fund Monitoring, Reporting and Exit

- 10.1. List the periodic reporting process of the Fund / Investment Managers to the Investors under their:
 - 10.1.1. Regulatory obligations
 - 10.1.2. Contractual obligations
 - 10.1.3. Additional information
- 10.2. Describe a reporting template.
- 10.3. Outline the available exit options for an AIF from its investee companies.
- 10.4. Compare IPO, Strategic Sale (M&A), Secondary sale, Buyback and Liquidation as exit options.
- 10.5. Identify the role and significance of ‘secondaries’ and their current status in India.

Unit 11 - Valuation

- 11.1. Describe briefly the general approaches to valuation of AIF investments in investee companies
 - 11.1.1. The Income Approach using DCF methodology
 - 11.1.2. The Market Approach using Relative Valuation
- 11.2. Distinguish between Enterprise Value and Equity value of a company.
- 11.3. Discuss the general approaches to valuing early stage companies.
- 11.4. Outline the general approaches to valuation of Debt fund investments.
- 11.5. Summarise the general approach to Fund Valuation and the valuation of Investor interest in a fund.
- 11.6. Explain using the J-Curve concept, the difficulty in fund valuation for early stage funds as compared to those in vintage years.
- 11.7. Discuss the role of external registered valuers and limitations of valuation reports.

Unit 12 – Taxation - India Specific

- 12.1. Identify the investment incomes that are subject to tax in AIF context for an investor.
- 12.2. Distinguish between STCG and LTCG and their importance for an AIF
- 12.3. Explain the concept of ‘tax pass through’ and its relevance from an AIF perspective.
- 12.4. Evaluate in comparative terms, the taxation framework for a domestic AIF in India constituted as a trust or LLP.
- 12.5. Discuss the tax treatment for Category I and II AIFs for business income and losses.
- 12.6. List the tax compliances for the Fund and withholding tax obligation for payouts to investors.
- 12.7. Outline the reporting obligations on the AIF in respect of income earned on investments.
- 12.8. Identify the tax implications on transfer of units of AIF by the investors
- 12.9. Identify a structure that best suits the requirement of Indian tax optimisation for an offshore AIF.
- 12.10. Discuss in brief the Double Tax Avoidance Agreement (DTAA) in the context of cross border investing.
- 12.11. Discuss FATCA and CRS compliance for AIF in India.

Unit 13 – Good Practices

- 13.1. List the documents constituting the fund constitution and KYC documentation kit which need to be shared with potential investors.
- 13.2. Explain how to ensure complete disclosure of a product / scheme of AIF to a client to be able to make an informed investment decision.
- 13.3. Identify the principal areas of risk factors that are to be highlighted to clients.
- 13.4. Describe how to be equipped as a distributor with necessary knowledge and information about the AIF scheme / fund and formulate an Investor Presentation.
- 13.5. Outline the necessary post-investment support to be provided to clients on a periodic basis.
- 13.6. Identify the necessary steps to be taken at a distributor level to ensure client confidentiality and data privacy.

13.7. Discuss good practices with reference to the following:

13.7.1. Not to indulge in fraudulent or unfair trade or commercial practices

13.7.2. Not to have conflict of interest

13.7.3. Not to indulge in market activities detrimental to investors or employers