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