

Annexure II – Test Objectives

NISM-Series-XIX-B: Alternative Investment Funds (Category III) Distributors Certification Examination

1. 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. Hedge Funds
 - 1.2.4. Real Estate
 - 1.2.5. Commodities
 - 1.2.6. Others
- 1.3. Trace the global evolution and growth of Alternate investments and its transformation over time to its present context.
- 1.4. Explain the role of Alternate Investments in overall portfolio with regard to the benefits and limitations of Alternate Investments.

2. Unit 2 – Growth of Alternative Investment Funds in India and Suitability of Category III AIFs

- 2.1. Trace the evolution and growth of Category III AIFs in India.
- 2.2. Identify the factors that enable India to be one of the top AIF markets in the world.
- 2.3. List and compare the fund categories as per SEBI (Alternative Investment Funds) Regulations 2012.
- 2.4. Analyse the suitability of Category III AIF products to particular classes of investors.
 - 2.4.1. Ascertain the suitability of a Category III AIF, based on Investors' risk-return profile.
 - 2.4.2. Describe asset allocation for HNI and Institutional investors looking to invest in Cat III AIF.
- 2.5. Discuss the size and segments of Category III AIF market in India, no. of AIFs registered with SEBI.

Unit 3: Introduction to Category III AIF Ecosystem

- 3.1. Illustrate investments under Category III AIF
- 3.2. Describe the characteristics of Funds under Category III AIF.
- 3.3. Explain the concepts prevalent in the Category III AIF industry:
 - 3.3.1. Category III AIF Ecosystem:
 - 3.3.1.1. Investors
 - 3.3.1.2. Sponsors
 - 3.3.1.3. Trustees
 - 3.3.1.4. Investment Managers
 - 3.3.2. Capital Committed and Sponsor Commitment
 - 3.3.3. Drawdown and Capital Invested
 - 3.3.4. Due Diligence

- 3.3.5.Environment, Social and Governance (ESG)
- 3.3.6.First Close and Final Close
- 3.3.7.Category III AIF Fees and Expenses:
 - 3.3.7.1. Lock-in Period and Exit Load
 - 3.3.7.2. Management Fees
 - 3.3.7.3. Set-up Costs and Operational Expenses
 - 3.3.7.4. Hurdle rate and High Water Mark
- 3.3.8.Additional returns and Performance Fees
- 3.3.9.Distributions and Distribution Waterfall
- 3.4. 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 and PMS
- 3.5. Compare the investments made by Hedge Funds globally, in USA, European and Asia Pacific Markets, as compared to investments made by Hedge Funds set-up in India
- 3.6. Assess the role of Cat III AIF in Portfolio Diversification
- 3.7. Interpret the use of Cat III AIF as a Risk Management tool:
 - 3.7.1.Alpha Management
 - 3.7.2.Beta Management

Unit 4: Category III AIF: Fund Structures and Service Providers

- 4.1. Explain the common fund structures of a Category III AIF:
 - 4.1.1.On-shore and Off-shore Funds
 - 4.1.2. Unified and Co-Investment Structures
 - 4.1.3. Parallel Structures and Master Feeder Structures
- 4.2. List and explain the roles of Service Providers in the Category III AIF industry:
 - 4.2.1.Fund Administrators
 - 4.2.2.Fund Infrastructure
 - 4.2.3.Distributors and Placement Agents
 - 4.2.4.Tax Advisors
 - 4.2.5.Registrar and Transfer Agents
 - 4.2.6.Legal Advisors
 - 4.2.7.Custodian
 - 4.2.8.Auditors
 - 4.2.9.Investment Advisors

5. Unit 5 –Regulatory Framework

SEBI (Alternative Investments Fund) Regulations, 2012

- 5.1. Introduction to the AIF Regulator and related regulations. Understand the importance of SEBI (Alternative Investment Fund) Regulations, 2012.
- 5.2. Briefly outline the registration process for a Category III AIF and the eligibility criteria to seek registration.
- 5.3. List the disclosure requirements at the time of registration and SEBI’s procedure to grant registration.
- 5.4. State the investment conditions and restrictions to be adhered to by the Fund, at the time of registration.

- 5.5. Outline the permissible legal structures for a Category IIIAIF, under SEBI Regulations.
- 5.6. Describe Private Placement Memorandum (PPM). State its importance and outline the important contents.
- 5.7. List the periodic disclosures to be made by a Category IIIAIF, in terms of Leverage, Risk Management, Risk-return profile, Fees charged, liabilities and investor complaints.
- 5.8. List the general investment requirements for a Category III AIF.
- 5.9. Examine whether Category IIIAIFs can be open-ended and closed-ended.
- 5.10. Briefly 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.
- 5.11. State the regulatory requirements to make a successful fund raising. Identify the importance of First close and Final close.
- 5.12. Understand the Concentration Limits applicable to Cat III AIF as per SEBI (AIF) Regulation. Compare with limits applicable to Mutual Funds.
- 5.13. List the general obligations and responsibilities of a Category III AIF with respect to disclosures and transparency under the SEBI (AIF) Regulations.
- 5.14. Describe the circumstances under which a Category III AIF shall be wound up.

Other Regulations

- 5.15. Discuss the regulatory and reporting requirements under FATCA and CRS, for Category IIIAIFs.
- 5.16. Explain Compliance Test Reporting (CTR). Describe the components of a CTR and the frequency of reporting CTR for a Category III AIF.
- 5.17. Illustrate the applicability of SEBI (Prohibition of Insider Trading) Regulations for Category III Funds and discuss the importance of relevant disclosures by the Category IIIAIF, as per these regulations.
- 5.18. Demonstrate the importance of disclosures made by a Category III AIF under the Prevention of Anti-Money Laundering Act.
- 5.19. Discuss the regulatory framework under FEMA, for Category III AIFs. List the regulations applicable at the time of investment or redemption from the fund and investment restrictions for foreign investors.
- 5.20. Discuss the SEBI (ICDR) Regulations on pricing guidelines.

6. Unit 6–Fee Structure, Fund Performance and Benchmarking

- 6.1. Describe and calculate Management Fees and Incentive Fees charged by Category III AIF. Discuss the concept of Total Fee.
- 6.2. Discuss the importance of Hurdle Rate, when computing Fees and forming the Fee Structure of a Category III AIF.
- 6.3. Explain the principle of High water mark and discuss its importance.
- 6.4. Distinguish the Fee Structure among Cat III AIF, Mutual Funds and PMS. Discuss and contrast Total Expense concept in Cat III AIF Total Expense Ratio (TER) of Mutual Funds.
 - 6.4.1. Calculate and analyse Pre and Post fees returns of a Cat III AIF.
- 6.5. Compute the performance of a Category IIIAIF, using various risk-return measures and Performance Measurement Ratios:
 - 6.5.1. Return Metrics
 - 6.5.1.1. Internal Rate of Return method – Gross and Net IRR computation with scenario analysis and illustrations. Explain with scenario analysis reasons for differential IRRs in Fund Performance

- 6.5.1.2. 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.
- 6.5.2. Risk Metrics
 - 6.5.2.1. Explain the types of risks involved in Cat III AIF (such as Market risk, Liquidity risk etc.)
 - 6.5.2.2. Analyse the risks of a Category III AIF from the PPM and the risk measures such as Kurtosis, Skewness and Standard Deviation. Determine which risk measure is most appropriate to be used to analyse risks for Category III Funds.
- 6.5.3. Risk-Return Metrics
 - 6.5.3.1. Explain various risk-return metrics such as Sharpe Ratio, Treynor Ratio, Maximum Drawdown, Value at Risk.
- 6.6. Discuss about Performance Benchmarking i.e. relevant benchmark for the Category III AIF, which has the similar characteristics and risk-return profile, as the fund under consideration. Discuss suitability of appropriate benchmarks for a Category III AIF, based on its investment strategy and support with example.
- 6.7. Evaluate the alpha generated by the Fund, using the appropriate benchmark.

7. Unit 7 – Cat III AIF Investment Strategies and Due Diligence Process

- 7.1. Discuss common Equity-Market Investment Strategies used by Cat III AIF:
 - 7.1.1. Long-only Equity Strategy
 - 7.1.2. Long/Short Equity strategy
 - 7.1.3. Market-Neutral Strategy
 - 7.1.4. Directional and Short-bias Strategies
- 7.2. Discuss Global-Macro strategy
- 7.3. Discuss Convertible Arbitrage strategy
- 7.4. Discuss common Event-driven Investment Strategies used by Cat III AIF:
 - 7.4.1. Activist Strategy
 - 7.4.2. Merger Arbitrage Strategy
 - 7.4.3. Pre-IPO Strategy
- 7.5. Briefly discuss the Due Diligence process before investing in a Category III AIF.

8. Unit 8 – Valuation

- 8.1. Discuss the concept of Net Asset Value (NAV). Describe the Mark-to-Market (MTM) process used by Cat III AIF to value NAV.
- 8.2. Describe briefly the valuation techniques used by a Category III AIF to value the NAV of the underlying portfolio of liquid and illiquid securities.
- 8.3. Outline briefly, the valuation technique to value fund positions in Commodity Derivatives and Equity Derivatives Markets.
- 8.4. Outline briefly, the valuation technique to value fund positions in money-market instruments used by Category III funds. Contrast this with valuation techniques used to value fund positions in long-term fixed income securities.
- 8.5. Differentiate between the general approach to compute the NAV for Category III AIF and NAV attributable to a Series of Units issued to investors.
- 8.6. Discuss the role of third-party registered valuers and the frequency of such valuation for Category III AIFs. Also specify the timeline for generation of valuation reports.

9. Unit 9 – Taxation

- 9.1. Explain the tax-regime for Category III Funds in India. Differentiate the tax-regime applicable to Cat III AIF from that applicable to Category I and Category II AIFs.
- 9.2. Explain the concepts of Determinate vs. Indeterminate trust and Revocable vs. Irrevocable trust, along with taxation principles applicable to each of them.
- 9.3. Explain the tax rates applicable to each stream of income of Cat III AIFs such as business income, capital gains, dividends, etc.
- 9.4. Explain the GST regime for Category III AIFs. Elaborate when GST is levied on Management/Performance Fees and the impact on investors.
- 9.5. Explain taxation on distribution/ redemption of units by Cat III AIFs.
- 9.6. Explain taxation on transfer of Cat III AIF units by investors.
- 9.7. Outline the withholding tax requirements for Category III AIFs.
- 9.8. Explain tax regime applicable to Cat III AIFs set-up in International Financial Service Centre (IFSC) and tax advantages of the same.
- 9.9. Analyse the impact of direct and indirect taxes on performance of Category III AIF:
 - 9.9.1. Calculate Pre and Post Tax Returns of a Cat III AIF
 - 9.9.2. Analyse the impact of GST on Fees

10. Unit 10 - Good Practices

- 10.1. Create a Fund Pitch book, with transparent disclosures about the fund manager experience, proposed investment strategy, expected return, leverage and risk. Identify the principal areas of risk factors that are to be highlighted to clients
- 10.2. Identify how to be updated with the relevant Fund Information and Investment Strategy, as a Distributor, in order to communicate with potential clients. Outline the necessary post-investment support to be provided to clients on a periodic basis
- 10.3. Identify and communicate the necessary steps to be taken at distributor-level to ensure client confidentiality and data privacy
- 10.4. Prepare a Code of Conduct at Fund-Level and communicate to all distributors:
 - 10.4.1. No fraudulent and unfair trade practices (include write-up on Pass-back and identify global regulations which prevent such act)
 - 10.4.2. No conflict of interest
 - 10.4.3. No marketing activities, detrimental to investors and employees
- 10.5. Demonstrate the importance of Insurance, for a Category III AIF, to protect its major stakeholders. Identify the major types of Insurance purchased by Category III AIFs, the losses insured and the persons insured.