CHAPTER

13

ALTERNATIVE INVESTMENT FUND

Covering-

- Alternative Investment Fund (AIF)
- Important Definitions
- Categories of AIF
- Venture Capital
- Angel Fund
- Private Equity
- High networth individual
- Self Test Questions
  - From Past CS Exam
  - From ICSI Module

EXPECTED MARKS COVERAGE (1 to 5)

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ALTERNATIVE INVESTMENT FUND

ALTERNATIVE INVESTMENT FUND (AIF)

SEBI has notified the SEBI (Alternative Investment Funds) Regulation, 2012 to govern unregulated entities and created a level playing ground for existing venture capital investors. This Regulation has replaced the existing SEBI (Venture Capital Funds) Regulations, 1996 ("VCF Regulations").

IMPORTANT DEFINITIONS

➢ ***Alternative Investment Fund:-***

AIF means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:-

(a)	Is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
(b)	Is not covered under the SEBI (Mutual Funds) Regulations, 1996 or any other regulations of SEBI, which aims to regulate fund management activities.

The following are specifically *excluded from* the purview of AIF Regulations (subject to conditions in certain cases):-

(a)	Family Trusts;
(b)	ESOP Trusts;
(c)	Employee Welfare Trusts;
(d)	Holding Companies within the meaning of section 4 companies Act, 1956;
(e)	Other Special Purpose Vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
(f)	Funds managed by registered securitization company or reconstruction company; and
(g)	Any such pool of funds which is directly regulated by any other Indian regulator.

CATEGORIES OF AIF

SEBI has classified AIF into the following broad categories	
Category I	Funds that invest in start-up or early stage ventures or social ventures or Small Medium Enterprises (SMEs) or infrastructure or other sectors which the government or regulators consider as socially or economically desirable which include **VCF, SME Funds, Socials Venture Funds (SVF), Infra Funds** and such other AIFs as may be specified in the AIF Regulations.
Category II	Funds that do not fall in Category I and III AIF and those that do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including **Private Equity Funds or Debt Funds.**
Category III	Funds that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, for e.g. **Hedge Funds.**

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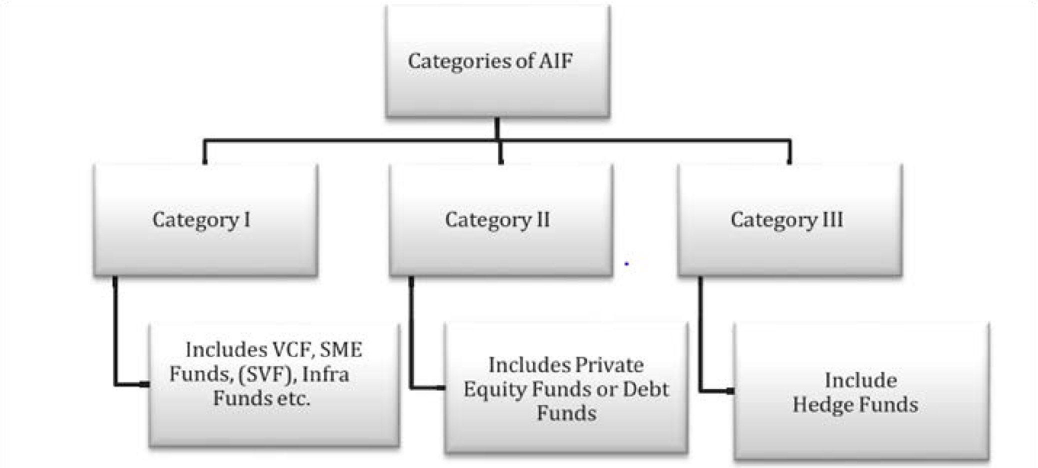

VENTURE CAPITAL

"Venture Capital Fund" means an Alternative Investment Fund **which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings** mainly involved in **new products, new services, technology or intellectual propert**y right based activities or a new business model and shall include an angel fund.

Venture Capital is generally equity investments made by Venture Capital funds, at an **early stage** in **privately held companies**, having potential to provide a **high rate of return** on their investments. It is a resource for **supporting innovation, knowledge based ideas and technol**ogy and human capital-intensive enterprises.

<u>AREAS OF INVESTMENT</u>

Different venture groups prefer different types of investments.

Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of many venture firms and receiving the most financing.

In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favoured by a lot of venture companies.

ANGEL FUND

Angel fund refers to money **pool created by high networth individuals or companies (generally known as Angel Investo**r), for investing in ***<u>start up business</u>***.

Angel fund is defined in SEBI (Alternate Investment Funds) (amendment) Regulations, 2013 as **a sub-category of Venture Capital Fund** under **category-I AIF** that ***<u>raises funds from angel investors and invest in accordance with rules specified by SEBI.</u>***

An **angel investor or angel** (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an **affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity**.

A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

Angel investments are typically the **earliest equity investments made in start-up companies**.

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PRIVATE EQUITY

Private equity is a type of equity (finance) and one of the asset classes ***who takes securities and debt in operating companies <u>that are not publicly traded on a stock exchange</u>.***

Private equity consists of investors and funds that make investments **directly into private companies** or **conduct buyouts of public companies.**

<u>Types of Private Equity</u>

Private equity investments can be divided into the following categories:

(a)	**<u>Leveraged Buyout (LBO):</u>** This refers to a strategy of making equity investments as part of a ***transaction in which a company, business unit or business assets is acquired from the current shareholders*** typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.
(b)	**<u>Venture Capital:</u>** It is a broad sub-category of private equity that refers to equity investments made, typically in **less mature companies**, for the launch, early development, or expansion of a business.
(c)	**<u>Growth Capital:</u>** This refers to equity investments, mostly minority investments, in the companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business.

HIGH NET WORTH INDIVIDUALS

HNIs or high net worth individuals is a c**lass of individuals who are distinguished from other retail segment based on their net wealth, assets and investible surplus.** While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions.

Though there is **no specific definition**, generally in the Indian context,

individuals with over ₹2 crore investible surplus may be considered to be HNIs
while those with **investible wealth in the range of ₹25 lac - ₹2 crore may be deemed as Emerging HNIs.**
If **you are applying for a IPO** of equity shares in an Indian company for **amount in excess of ₹2 lakhs, you fall under the HNI category.** On the other hand, if you apply for amount under ₹2 lakhs, you are considered as a retail investor. There may be so many ways in which HNIs are categorized and defined, there is no single bracket that could put them under.

SELF TEST QUESTIONS

FROM PAST CS EXAMS

1. Write notes on the following.
   (i) Alternate investment fund
2. Explain briefly the following:
   (i) Social venture funds.
   (ii) Investible fund
3. Discuss briefly the various categories of alternative investment fund (AIF).
4. Descriptive Question
   (i) What is placement memorandum'? List out its essential content.

FROM ICSI MODULE

Answer the following:

1. What is Alternative Investment Fund?
2. Briefly explain the different categories of Alternative Investment Fund.
3. Write Short notes on the following:
   (i) Angel Fund
   (ii) Investible Fund
   (iii) Social Venture Fund
   (iv) SME Fund
4. What is placement memorandum? Discuss briefly the contents of placement Memorandum?
5. What are the obligation of the manager under the AIF regulation?

Q. 1.

Answer to Question No. 1:-

Q. 2.

Answer to Question No. 2:-

CHAPTER

14

COLLECTIVE INVESTMENT SCHEME

Covering-

- Collective Investment Scheme-Meaning
- Collective Investment Scheme – Registration
- Contents of Trust Deed
- Obligations of collective investment management company
- Rights and Obligations of the Trustee
- Termination of Trustship
- Restrictions on Business Activities
- Collective Investment Scheme – Important Points
- Self Test Questions
  - From Past CS Examination Questions
  - From ICSI Module

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COLLECTIVE INVESTMENT SCHEMES

COLLECTIVE INVESTMENT SCHEME-MEANING

As per SEBI Act, 1992 **'Collective Investment Scheme' means any scheme or arrangement which satisfies the conditions specifies in section 11AA.**

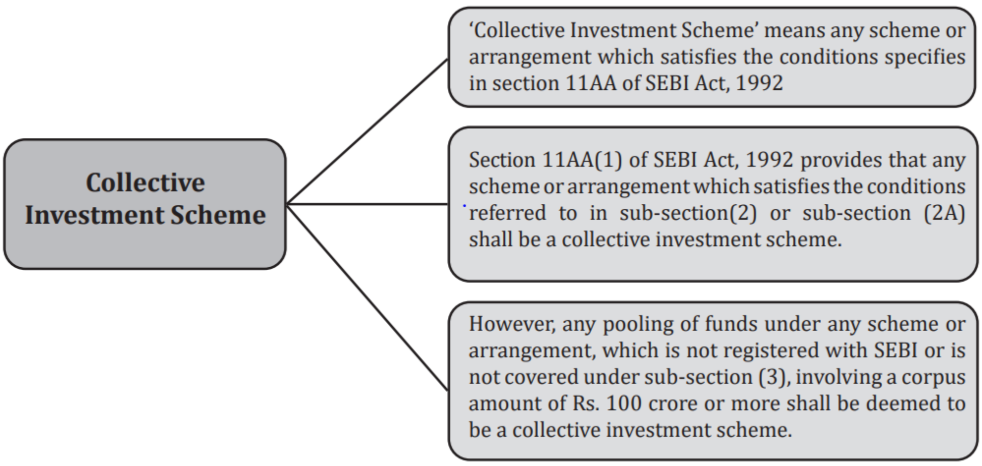
As per section 11AA The Collective Investment Scheme means any scheme or arrangement made or offered by any company under which :	**(a)**	the contributions, or payments made by the investors, by whatever name called, are pooled and utilised solely for the purposes of the scheme or arrangement;
	(b)	the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable from such scheme or arrangement;
	(c)	the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors; and
	(d)	the investors do not have day to day control over the management and operation of the scheme or arrangement.

The CIS, however, does not include any scheme or arrangement

(a)	made or offered by a co-operative society,
(b)	under which deposits are accepted by non banking financial companies,
(c)	being a contract of insurance,
(d)	providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provision Act, 1952,
(e)	under which deposits are accepted under section 58A of the Companies Act, 1956,
(f)	under which deposits are accepted by a company declared as Nidhi or a mutual benefit society under section 620A of the Companies Act, 1956,
(g)	falling within the meaning of Chit business as defined in clause (d) of section 2 of Chit Fund Act, 1982 and
(h)	under which contributions made are in the nature of subscription to a mutual fund.

Collective Investment Management Company is regulated by **SEBI (Collective Investment Scheme) Regulations, 1999**.

SEBI (Collective Investment Scheme) Regulations, 1999 **defines Collective Investment Management Company to mean a company incorporated under the Companies Act, 1956 and registered with SEBI** under these regulations, whose object is to organise, operate and manage a collective investment scheme.



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Section 11AA

Sub-Section 2

Any scheme or arrangement made or offered by any person under which,—

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized for the purposes of the scheme or arrangement;

(ii) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable, from such scheme or arrangement;

(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors;

(iv) the investors do not have day-to-day control over the management and operation of the scheme or arrangement.

Sub-Section 2A

Any scheme or arrangement made or offered by any person satisfying the conditions as may be specified in accordance with the regulations made under SEBI Act.

Sub-Section 3

The following shall not be Collective Investment Scheme (CIS):

(i) made or offered by a co-operative society registered under the Co- operative Societies Act, 1912 or a society being a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State;

(ii) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934;

(iii) being a contract of insurance to which the Insurance Act, 1938, applies;

(iv) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;

(v) under which deposits are accepted under section 74 of the Companies Act, 2013;

(vi) under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 406 of the Companies Act, 2013;

(vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982;

(viii) under which contributions made are in the nature of subscription to a mutual fund;

(ix) such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify, shall not be a collective investment scheme.

COLLECTIVE INVESTMENT SCHEME-REGISTRATION

(a)	Any person proposing to carry any activity as a Collective Investment Management Company should make an application to SEBI for the grant of registration in the specified form.
(b)	the applicant should be a **Public company** registered under the Companies Act, 1956;
(c)	A scheme should be **constituted in the form of a trust and the instrument of trust should be in the form of a deed duly registered** under the provisions of the Indian Registration Act, 1908 executed by the Collective Investment Management Company in favour of the trustees named in such an instrument.

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CONTENTS OF TRUST DEED

The trust deed should contain such **clauses as are specified and other clauses as are necessary** for safeguarding the interests of the unit holders.

No trust deed should contain a clause which has the effect of **limiting or extinguishing the obligations and liabilities of the Collective Investment Management Company** in relation to any scheme or the unit holders; or **indemnifying the trustee or the Collective Investment Management Company for loss** or damage caused to the unit holders by ***their acts of negligence or acts of commissions or omissions***.

OBLIGATIONS OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY

Every Collective Investment Management Company should:

(i)	be responsible for managing the funds or properties of the scheme on behalf of the unit holde₹
(ii)	exercise due diligence and care in managing assets and funds of the scheme and also responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;
(iii)	appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified.
(iv)	give receipts for all monies received and report of the receipts and payments to SEBI, on monthly basis;
(v)	hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every three months and also ensures that its officers or employees do not make improper use of their position or information to gain, directly or indirectly, an advantage for themselves.

RIGHTS AND OBLIGATIONS OF THE TRUSTEE

RIGHT

The trustee h**ave a right**

1.	to obtain from the CIMC such information as is considered necessary by the trustee and
2.	to inspect the books of accounts and other records relating to the scheme.

OBLIGATIONS

(a)	The trustee should be accountable for, and act as the custodian of the funds and property of the respective schemes
(b)	The trustee is required to convene a meeting of the unit holders on requisition of SEBI or unit holders holding at least one-tenth of nominal value of the unit capital of any scheme or when any change in the fundamental attributes of any scheme which affects the interest of the unit holders is proposed to be carried out. However, no such change should be carried out unless the consent of unit holders holding at least three-fourths of nominal value of the unit capital of the scheme is obtained.
(c)	The trustee should review on a quarterly basis i.e. by the end of March, June, September, and December every year all activities carried out by the CIMC;
(d)	The trustee should cause:
	(a) the profit and loss accounts and balance sheet of the schemes to be audited at the end of each financial year by an auditor empanelled with SEBI.

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(b)	each scheme to be appraised at the end of each financial year by an appraising agency.
(c)	scheme to be rated by a credit rating agency.

(e) The trustee should forthwith take such remedial steps as are necessary and immediately inform SEBI of the action taken where the trustee believes that the conduct of business of the scheme is not in accordance with the regulations.

TERMINATION OF TRUSTEESHIP

The trusteeship of a trustee should come to an end –

(a) If the trustee **ceases to be trustee** under SEBI (Debentures Trustees) Regulations, 1993; or
(b) if the trustee is in the **course of being wound** up; or
(c) if **unit holders holding at least three-fourths** of the nominal value of the unit capital of the collective investment scheme pass a resolution for removing the trustee and **SEBI approves such** resolution;or
(d) if in the **interest of the unit holders**, **SEBI, for reasons to be recorded** in writing decides to remove the trustee for any violation of the Act or these regulations committed by them or the trustee should be afforded reasonable opportunity of being heard before action is taken under this clause;
(e) if the **trustee serves** on the Collective Investment Management Company, **a notice of not less than three months expressing intention of not to continue as trustee.**

RESTRICTIONS ON BUSINESS ACTIVITIES

The Collective Investment Management Company should not:-	**(a)**	undertake any activity other than that of managing the scheme;
	(b)	act as a trustee of any scheme;
	(c)	launch any scheme for the purpose of investing in securities;
	(d)	invest in any schemes floated by it.

COLLECTIVE INVESTMENT SCHEME- IMPORTANT POINTS

(a)	Every scheme shall obtain **credit rating** from a recognised Credit Rating Agency.
(b)	Scheme shall be kept **open for subscription for a maximum period of 90 days**.
(c)	Duration of schemes shall **not exceed 3 year₹**
(d)	All the schemes should be **close ended schemes**.
(e)	The units of every scheme **shall be listed immediately** after the date of allotment of units and not later than **six weeks** from the date of closure of the scheme on each of the stock exchanges as mentioned in the offer document.

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PROCEDURE FOR LAUNCHING OF COLLECTIVE INVESTMENT SCHEMES

No collective investment scheme shall be launched by the Collective Investment Management Company

Unless such Collective Investment Scheme (CIS) is approved by trustee.	without obtaining rating from a credit rating agency.	without getting the collective investment scheme appraised by an appraising agency.

ALLOTMENT OF UNITS AND REFUNDS OF MONEY

The Collective Investment Management Company should specify in the offer document **the minimum and the maximum subscription amount** it seeks to raise under the scheme; and **in case of oversubscription, the process of allotment of the amount oversubscribed**.

The CIMC should **refund the application money to the applicants, if the scheme fails to receive the minimum subscription amount**. Any amount refundable should be refunded within a period **of six weeks from the date of closure of subscription list.**

In the event of failure to refund the amounts within the period specified, the CIMC has to pay interest to the applicants at a **rate of fifteen percent per annum on the expiry of six weeks** from the date of closure of the subscription list.

UNIT CERTIFICATES

The Collective Investment Management Company should issue to the applicant whose application has been accepted, unit certificates as soon as possible **but not later than six weeks from the date of closure of the subscription list.**

WINDING UP OF SCHEME

A scheme should be wound up on the expiry of duration specified in the scheme or on the accomplishment of the objective of the scheme as specified in the offer document. A scheme <u>may be wound up :</u>	(a) on the **happening of any event** which, in the opinion of the trustee, requires the scheme to be wound up and the prior approval of SEBI is obtained; or
	(b) if **unit holders** of a scheme holding **at least three-fourth** of the nominal value of the unit capital of the scheme, pass a resolution that the scheme be wound up and the approval of SEBI is obtained thereto; or
	(c) **if in the opinion of SEBI**, the continuance of the scheme is prejudicial to the interests of the unit-holders; or
	(d) **if in the opinion of the CIMC,** the purpose of the scheme cannot be accomplished and it obtains the approval of the trustees and that of the unit holders of the scheme holding at least three-fourth of the nominal value of the unit capital of the scheme with a resolution that the scheme be wound up and the approval of SEBI is obtained thereto.

SELF TEST QUESTIONS

FROM PAST CS EXAMS

1. Write short notes on the following:
   (i) Collective investment schemes
2. Descriptive Questions
   (i) Explain the concept of 'collective investment scheme' State briefly the obligation of trustees.
3. What is 'Collective investment scheme'? What are the restrictions on their business activities?
4. Comment briefly on the following statement:
   (i) "Collective investment scheme is constituted as trust."
   (ii) What is collective investment scheme (CIS)? Discuss the Schemes and arrangements which are not included in CIS.
5. What is collective investment scheme (CIS)? Discuss the schemes and arrangement which are not included in CIS.
6. Discuss the restrictions put by SEBI on the business activities of a collective investment management company (CIMC)
7. Define collective investment scheme and discuss the restrictions on its business activities.
8. Explain the following: collective investment scheme (CIS) provides a relatively secure means of investing on the stock exchange and other financial instruments.

FROM ICSI MODULE

Answer the following:

1. What are the obligations of Collective Investment Management Company?
2. Discuss the various restrictions on business activities of Collective Investment Management Company?
3. Enumerate the rights and obligations of trustees of collective investment schemes?
4. Discuss the circumstances under which a collective investment scheme could be wound up?

Q. 1.

Answer to Question No. 1:-

Q. 2.

Answer to Question No. 2:-

CHAPTER

15

REAL ESTATE INVESTMENT TRUST ('REIT')

Covering-

- Benefits of REIT

EXPECTED MARKS COVERAGE (1 to 5)

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REAL ESTATE INVESTMENT TRUST ('REIT')

A real estate investment trust ("REIT") is a company **that owns, operates or finances income-producing real estate**.
REITs provide **all investors the chance to own valuable real estate**, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive, and revitalize.
REITs allow **anyone to invest in portfolios of real estate assets** the same way they invest in other industries – through the purchase of individual company stock or through a mutual fund or exchange traded fund (ETF).
The stockholders of a **REIT earn a share of the income produced through real estate investment** – *without buying any finance property*

BENEFITS OF REITS

Benefits of REITs include:

1.	**Less Capital Intensive**: Direct investment in real estate property is very capital intensive. But each shares of REITs will be comparatively more affordable (it will not require large capital outflows).
2.	**Suitable for small Investors:** Investing through REITs will eliminate dealing with builders, thereby avoiding potential exposure to big builders
3.	**Transparency:** REITs stocks are listed in stock market, hence details will be available on public domain
4.	**Assured Dividends:** REITs generates income in form of dividend. REITs dividend payment is relatively assured as most of their income is in the form of rental (lease) income.
5.	**Tax Free:** Dividend earned by the investors of REIT will be tax free.
6.	**Fast Capital Appreciation:** capital appreciation can be phenomenal.
7.	**Easy to buy:** Investment in REITS easier than investment in Real Estate properties

REITs are similar to mutual funds and shares and they provide income by way of :

(a)	**Dividend**: REITs pay dividends to its shareholders.
(b)	**Capital Appreciation**: As REIT stocks are listed in BSE and NSE, price appreciation of its shares will also make money.

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CHAPTER

16

INFRASTRUCTURE INVESTMENT TRUSTS ('InvITs')

Covering-

- Component

EXPECTED MARKS COVERAGE (1 to 5)

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INFRASTRUCTURE INVESTMENT TRUSTS

The primary objective of InvITs is to promote the **infrastructure sector of India** by encouraging more individuals to invest in it.

Typically, such a tool is designed to **pool money from several investors to be invested in income generating assets.**

The cash flow thus generated is distributed among investors as **dividend income**.

When compared to Real Estate Investment Trust or REITs, the structure and operation of both are quite similar.

COMPONENT

An InvIT is established as a trust and is registered with the SEBI. Typically, infrastructure investment trust SEBI comprises 4 elements, namely –

(a) **Trustee** : They are required to be registered with SEBI as debenture trustees. Also, they are required to invest at least 80% into infra assets that generate steady revenue.
(b) **Sponsor** : Typically, a body corporate, LLP, promoter or a company with a net worth of at least Rs. 100 crore classifies as a sponsor. Further, they must hold at least 15% of the total InvITs with a minimum lock-in period of 3 years or as notified by any regulatory requirement. When it comes to a public-private partnership or PPP projects, sponsors serve as a Special Purpose Vehicle (SPV).
(c) **Investment manager** : As a body corporate of LLP, an investment manager supervises all the operational activities surrounding InvITs.
(d) **Project manager** : The authority is mostly responsible for executing projects. However, in the case of PPP projects, it serves as an entity that also supervises ancillary responsibilities.

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Answer to Question No. 1:-

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Answer to Question No. 2:-