

Lawple
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Primer on AIFs

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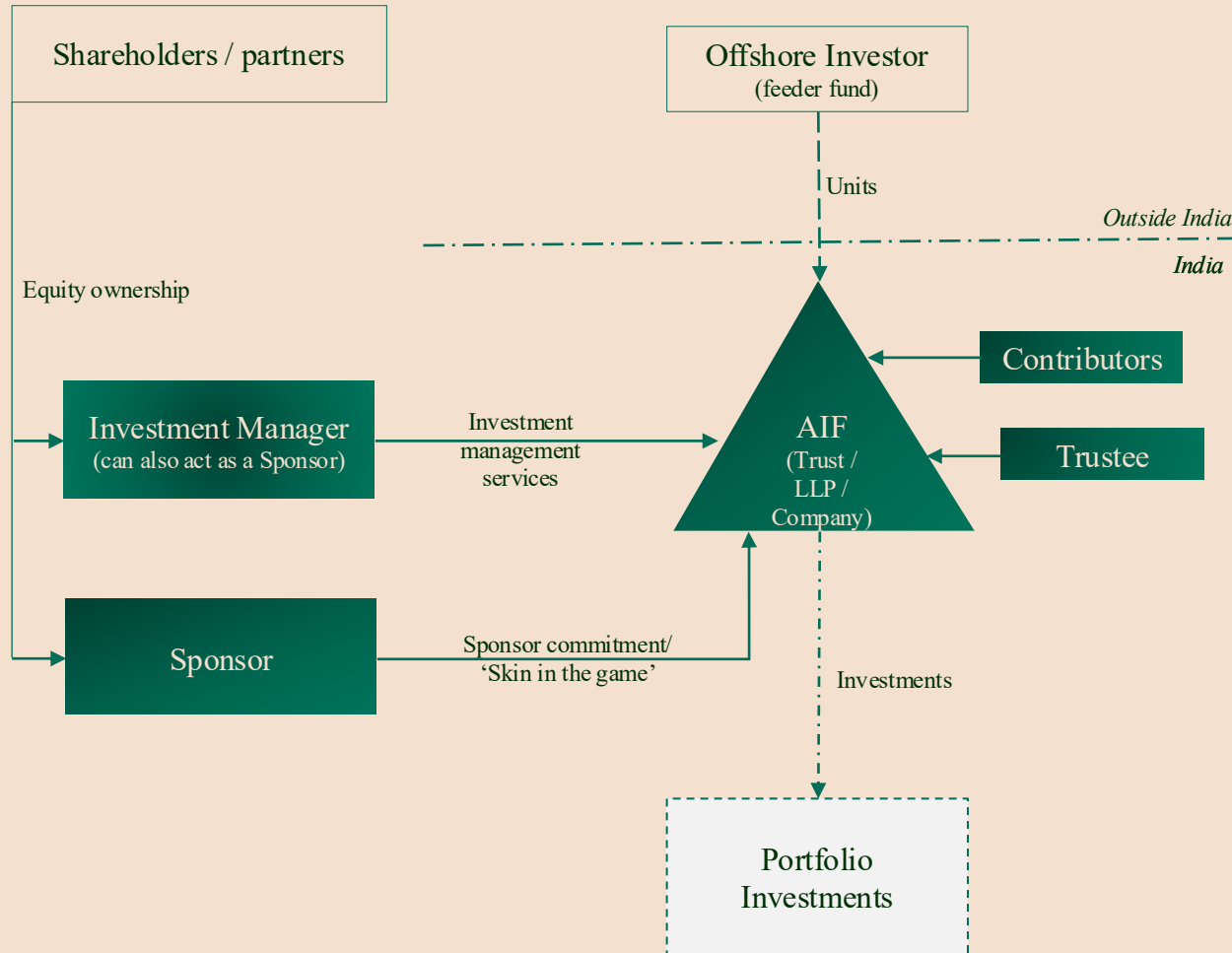
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Traditional AIF Structures



❖ Objective

- Ability to participate in Indian securities.

❖ Proposed structure

- An alternative investment fund (“AIF”) set up in India, will be registered with SEBI and pool monies from investors in India and outside India.
- The investment manager and sponsor could be owned and controlled by shareholders / partners. Alternatively, the sponsor entity could also be domiciled outside India. The investment manager entity could also act as the sponsor.
- The sponsor to make the minimum regulatory commitment and any additional ‘skin in the game’. The investment manager to render management services to the AIF.
- Such AIF can make investments in Indian portfolio companies, which could also include credit instruments in various sectors (including, real estate or infrastructure) as the investment objective of the AIF may prescribe.

Key Stakeholders

Participant	Role
Settlor	Client to identify the person that will settle the trust (i.e., the AIF) - the investment manager can be the settlor.
Trustee	Client to identify the trustee - can be a professional trustee such as Orbis, Axis Trustee, Mitcon, IDBI Trustee, etc.
Investment Manager	An Indian entity established by the client can be appointed as investment manager of the AIF. Separately, the entity needs to designate an individual as a ‘compliance officer’ and have at least one member of its key investment team qualified by giving passing the NISM Series-XIX-C: Alternative Investment Fund Managers Certification Examination.
Sponsor	The manager can also sponsor the AIF i.e., act as the sponsor of the AIF or it can be an entity outside India.
Contributor/Investor	The contributors would be the ‘beneficiary’ of the trust (AIF). Indian investors will also be beneficiaries along with the manager / sponsor entity.
Custodian	To be appointed prior to date of first investment.
Registrar and Transfer Agent	Registrar and transfer agent required to be appointed to enable collection of applicable stamp duty on issue, transfer and sale of units of AIFs.
Merchant Banker	To be appointed for exercising independent due diligence and providing a certificate in the format prescribed by SEBI, to be attached at the time of submission of application for registration as AIF.
Depository Participant	Appointment of depository participant for dematerialization of units.

Key comparison for various categories / classification of AIFs (1/5)

Particulars	Cat I, II and III Schemes	Accredited Investor (AI) only Fund	Large Value Fund for AI	Cat I - Angel Fund
Investment Focus	<u>Cat I AIF</u>: venture capital fund, angel fund, social impact fund, SME fund, infrastructure fund, special situation fund. <u>Cat II AIF</u>: focuses primarily on unlisted securities. <u>Cat III AIF</u>: employs diverse or complex trading strategies.	<u>Accredited Investors only Fund</u> can be launched as a scheme under any of the three categories of AIF. The investment focus will depend on the Category of registration of AIF.	<u>Large Value Fund for Accredited Investors</u> can be launched as a scheme under any of the three categories of AIF. The investment focus will depend on the Category of registration of AIF.	Startups, which are not promoted or sponsored by or related to a corporate group whose group turnover exceeds three hundred crore rupees.
Eligible Investors	Both Accredited and Non-Accredited Investors.	Accredited Investors only.	Accredited Investors with minimum investment of INR 25 Crore.	Accredited Investors only.
Minimum Investment Amount	<u>For regular Investors</u>: INR 1 Crore. <u>For employees or directors of AIF or employees or directors of the Manager</u>: INR 25 Lakhs. Nil in case of employees for the purpose of profit sharing. <u>For Accredited Investors</u>: No regulatory minimum investment amount.	<u>For Accredited Investors</u>: No regulatory minimum investment amount. <u>For employees or directors of AIF or employees or directors of the Manager</u>: INR 25 Lakhs. Nil in case of employees for the purpose of profit sharing.	<u>For Accredited Investors</u>: INR 25 Crore. <u>For employees or directors of AIF or employees or directors of the Manager</u>: INR 25 Lakhs. Nil in case of employees for the purpose of profit sharing.	<u>For Accredited Investors and key management personnel</u>: No regulatory minimum investment amount.

Key Comparison for Various Categories / Classification of AIFs (2/5)

Particulars	Cat I, II and III Schemes	Accredited Investor (AI) only Fund	Large Value Fund for AI	Cat I - Angel Fund
Minimum Sponsor / Manager Commitment	<u>For Cat I and Cat II:</u> 2.5% of the corpus or INR 5 Crore, whichever is lower. <u>For Cat III:</u> 5% of the corpus or INR 10 Crore, whichever is lower.	<u>For Cat I and Cat II:</u> 2.5% of the corpus or INR 5 Crore, whichever is lower. <u>For Cat III:</u> 5% of the corpus or INR 10 Crore, whichever is lower.	<u>For Cat I and Cat II:</u> 2.5% of the corpus or INR 5 Crore, whichever is lower. <u>For Cat III:</u> 5% of the corpus or INR 10 Crore, whichever is lower.	0.5% of the amount invested or INR 50,000, whichever is higher.
Minimum Tenure	3 (three) years from the date of first closing. No tenure for open ended funds.	Same	Same	Same
Permitted Extensions	Up to 2 (two) years with the consent of 2/3rd investors by value.	Up to 2 (two) years with the consent of 2/3rd investors by value.	Up to 2 (two) years with the consent of 2/3rd investors by value.	Up to 2 (two) years with the consent of 2/3rd investors by value.
Maximum Investor Limit	Up to 1000 Non-Accredited Investors. No restriction in terms of Accredited investors.	No restriction	No restriction	No restriction

Key Comparison for Various Categories / Classification of AIFs (3/5)

Particulars	Cat I, II and III Schemes	Accredited Investor (AI) only Fund	Large Value Fund for AI	Cat I - Angel Fund
Concentration norm	<u>Cat I and II</u>: Up to 25% of the Investable Funds in one Investee Company directly or through investment in other AIFs. <u>Cat III</u>: Up to 10% of the Investable Funds in one investee company directly or through investment in other AIFs. The 10% investment cap in listed equities can be calculated on either the Investable Fund or scheme NAV.	<u>Cat I and II</u>: Up to 25% of the Investable Funds in one Investee Company directly or through investment in other AIFs. <u>Cat III</u>: Up to 10% of the Investable Funds in one investee company directly or through investment in other AIFs. The 10% investment cap in listed equities can be calculated on either the Investable Fund or scheme NAV.	<u>Cat I and II</u>: Up to 25% of the Investable Funds in one Investee Company directly or through investment in other AIFs. <u>Cat III</u>: Up to 10% of the Investable Funds in one investee company directly or through investment in other AIFs. The 10% investment cap in listed equities can be calculated on either the Investable Fund or scheme NAV.	INR 10 lakhs and maximum investment INR 25 Crores (inclusive of follow-on Investments made by the Fund) in one investee company.
NISM Certification	At least one personnel with NISM Certification	Not Applicable	Not Applicable	At least one personnel with NISM Certification

1. "investable funds" means corpus of the scheme of Alternative Investment Fund net of expenditure for administration and management of the fund estimated for the tenure of the fund.

2. NISM Series XIX-C: Alternative Investment Fund Managers Certification Examination or NISM-Series-XIX-D: Category I and II Alternative Investment Fund Managers Certification Examination or NISM-Series-XIX-E: Category III Alternative Investment Fund Managers Certification Examination.

Key comparison for various categories / classification of AIFs (4/5)

Particulars	Cat I, II and III Schemes	Accredited Investor (AI) only Fund	Large Value Fund for AI	Cat I - Angel Fund
Pari-Passu Principle	Applicable, as per Regulations 20(22) of the AIF Regulations. The rights of investors of a scheme of an AIF shall be pari-passu in all aspects. Provided that differential rights may be offered to select investors of a scheme of an AIF, without affecting the interest of other investors of the scheme. Such rights should be offered subject to SFA standards.	Not Applicable.	Not Applicable.	Applicable. Such rights should be offered subject to SFA standards.
PPM template and Audit Requirement	Applicable	Applicable	Applicable (Not applicable for LVFs with minimum 70 Cr per investor)	Applicable
MB Certificate	Required	Required	Not Required	Not Required
IC Responsibility	Applicable	Applicable	Not Applicable	Not Applicable

Key comparison for various categories / classification of AIFs (5/5)

Particulars	Cat I, II and III Schemes	Accredited Investor (AI) only Fund	Large Value Fund for AI	Cat I - Angel Fund
Lock-in Requirements / Relaxations	<u>Cat I and II:</u> Pre-issue capital held by such AIFs in the company proposed to be listed on the stock exchanges and SME exchanges, shall be locked in for a period of 6 (six) months and 1 (one) year, respectively, from the date of purchase by such AIF. <u>For Category III AIF,</u> the lock-in period of such pre-issue shares is 6 (six) months from the date of IPO or 12 (twelve) months from the date of SME IPO. If subscribed as an <u>Anchor Investor (all categories of AIF)</u> during the IPO: 50% lock in for 90 (ninety) days from the date of allotment and remaining 50% for 30 days from the date of allotment.	Same	Same	Investments made by Angel Funds in Startups shall be locked in for a period of 1 (one) year. However, the lock in period shall be 6 (six) months if the exit from the investment by Angel Fund is by way of sale to a third party, excluding buy-back by the investee company or purchase by its promoters or their associates.
Registration Fees	Cat I: INR 5 lakhs + GST 18% Cat II: INR 10 lakhs + GST 18% Cat III: INR 15 lakhs + GST 18% (excluding application fees of INR 1 Lac + GST in all cases)			Cat I Angel Fund: INR 2 lakhs + GST 18%

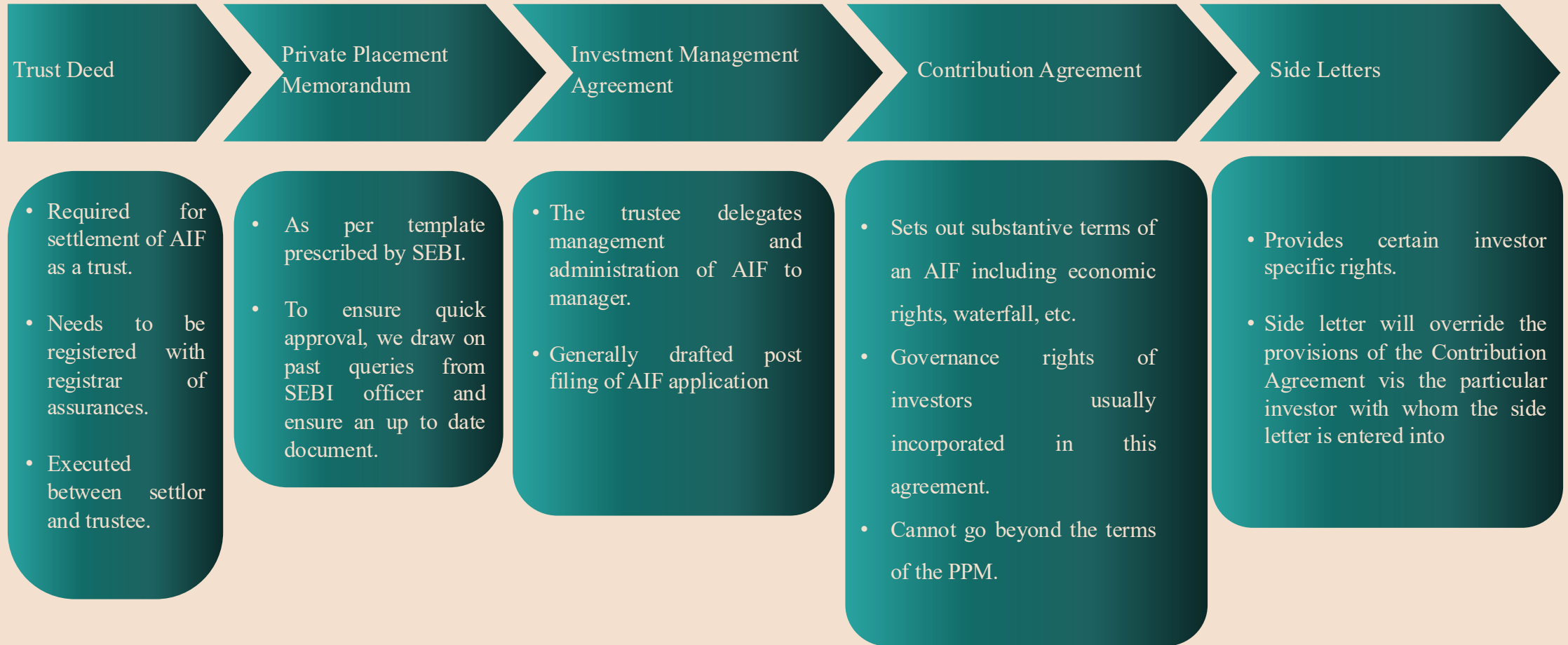
Key Considerations for Cat I and II AIF

Particulars	Consideration
Tax	Income Taxed at Investor Level: Capital gains, dividends, and interest income are passed through and taxed in the investor's hands. Exception: Business Income: Any income classified as “profits and gains from business or profession” is taxed at the AIF level (at corporate rates for companies/LLPs or the Maximum Marginal Rate (MMR) for trusts). Unabsorbed Losses: Business losses are retained by the AIF and can be carried forward at the fund level. Withholding Tax (TDS): AIFs typically deduct 10% TDS on passed-through income for resident investors, while in case of non-resident investors, it is as per DTAA.
Market Commercials	▪ Management Fee: 1% to 3% (for high pedigreed funds) ▪ Additional Return / Carry: 10-30% ▪ Hurdle: 5% to 12% ▪ Ongoing Costs: 0.5% to 2% of AUM ▪ Set-up Costs: 0.5% to 2% of AUM
Borrowing	To not borrow funds except for : (a) temporary funds not more than 30 days (b) less than 4 occasions in a year Borrowing shall be limited to the lower of: (i) 10% of investable funds (ii) 20% of the proposed investment in the investee company iii) undrawn commitment from investors other than the defaulting investors

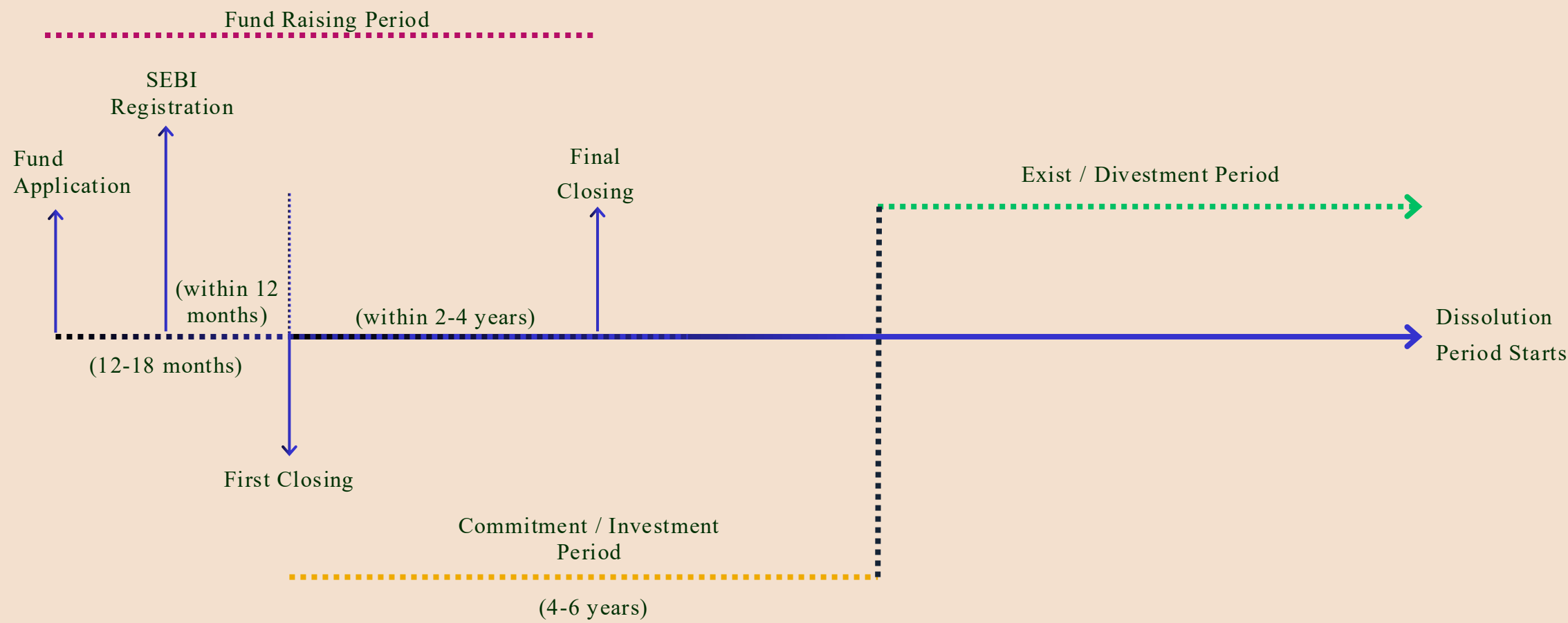
Key Considerations for Cat III AIFs

Particulars	Consideration
Tax	Fund Pays Tax: All income (capital gains, interest, dividends, business income) earned by a Category III AIF is taxed at the fund level. Tax Rate: Often, particularly if structured as a trust, this income is taxed at the Maximum Marginal Rate (MMR) (depending on the nature of income). Distributions to Investor: Since tax is already paid at the fund level, distributions received by investors from Category III AIFs are generally tax-exempt in their hands. The tax can be collected from the trustee or, in certain circumstances, directly from the investor.
Foreign Investment	- Foreign Capital by Cat III AIFs is received as FDI and must comply with FEMA (Non-Debt Instruments) Rules, 2019. - This means, a Cat III AIF with foreign capital may invest in only those instruments in which an SEBI Registered Foreign Portfolio Investor may participate. That is such Cat III AIF must mirror FPI Restrictions. - Dual oversight of RBI and SEBI with FPI style reporting and disclosures. - FPIs cannot hold more than 25% stake in the Category III AIF.
Market Commercials	- Management Fee: 1% to 3% (for long only to high pedigree quant and systematic funds) - Performance Fee: 15% to 30% (typically for complexity, leverage usage) with standard high watermark - Hurdle: 5% to 15% - Ongoing Costs: 0.5% to 2% of AUM - Set-up Costs: 0.5% to 2% of AUM - Exit Loads: Typically 2% till lock-in period

Key Documents



Fund Lifecycle (Close-ended)



Annex 1: Tentative Costs

SR NO.	AMOUNT
SEBI Application Fee	1,18,005
SEBI Registration Fee	2, 5, 10 and 15 Lacs based on Category + 18% + INR 5
Professional Fee (legal + tax)	7,50,000
Post Registration Support (see Annex 3)	1,20,000
Trustee Fee (tentative – based on service provider)	50,000
Merchant Banker Fee (tentative – based on service provider)	70,000
Initial Registrations Related Fee (See Annex 2) (tentative – based on service provider)	100,000
Trust Registration Fee (incl. stamp papers) (tentative – based on service provider)	26,000

Annex 2: Initial Registrations

Sr No.	Registrations
1	CKYC / KRA Registration
2	Financial Intelligence Unit (FIU) Registration
3	SCORES Registration
4	Support in Online Dispute Resolution (ODR) registration
5	InVi Registration
6	Foreign Liabilities and Assets information Reporting (FLAIR) Registration
7	Legal Entity Identifier (LEI) registration
8	Registration on income tax/TRACES portal
9	BUDS Portal

Annex 3: Post Registration Policies (1/2)

Particulars	Details
Investment Policy	AIF Regulations require every AIF to have a defined investment policy.
Conflict of Interest Policy	Regulation 21(2) of the AIF Regulations: Manager shall establish and implement written policies and procedures to identify, monitor and appropriately mitigate conflicts of interest throughout the scope of business. Schedule 4 of the AIF Regulations: Code of Conduct for AIFs, paragraph 1(f) mentions that an AIF shall have written policies and procedures to identify, monitor and appropriately mitigate any potential conflict of interest through-out the scope of its business.
Outsourcing policy	Paragraph 13.5 of the SEBI Master Circular dated 7 May 2024, bearing reference no. SEBI/HO/AFD-1/AFD-1-PoD/P/CIR/2024/39.
Risk Management Policy	Schedule 4 of the AIF Regulations: Code of Conduct for AIFs, paragraph 1(e) mentions that an AIF shall ensure that an effective risk management process and appropriate internal controls are in place.
Insider trading policy	SEBI (Prohibition of Insider Trading) Regulations, 2015 require every intermediary to adopt an insider trading code of conduct.
Cybersecurity and Cyber Resilience Framework (CSCRF)	SEBI circular dated 20 August 2024, bearing reference no. SEBI/HO/ITD-1/ITD_CSC_EXT/P/CIR/2024/113 requires AIFs to put in place appropriate systems and procedures to ensure compliance with the provisions of CSCRF including a comprehensive cybersecurity and cyber resilience policy.

Annex 3: Post Registration Policies (2/2)

Particulars	Details
Know your client and anti-money laundering policy	Schedule 4 of the AIF Regulations: Code of Conduct for AIFs, paragraph 1(h) mentions that an AIF shall have written policies and procedures to comply with anti-money laundering laws.
Valuation Policy	Regulation 27(1)(b) of the AIF Regulations: Manager or Sponsor shall be required to maintain valuation policy and practices.
Investor Grievances Policy	Annexure 15 of the SEBI Master Circular dated 7 May 2024, bearing reference no. SEBI/HO/AFD-1/AFD-1-PoD/P/CIR/2024/39.
Stewardship code	Paragraph 13.4 r/w Annexure 10 of the SEBI Master Circular dated 7 May 2024, bearing reference no. SEBI/HO/AFD-1/AFD-1-PoD/P/CIR/2024/39.
Other Policies	Liquidity Management Policies,

Annex 4: Accredited Investor Framework

Category of Investor	Eligibility Criteria	Validity of Accreditation
Individuals / HUF	Net worth $\geq$ ₹7.5 crore (incl. ₹3.75 crore in financial assets) OR Annual income $\geq$ ₹2 crore	1 year (financial asset method) or 2 years (net worth method)
Body Corporates	Net worth $\geq$ ₹50 crore	2 years
Family Trusts	Net worth $\geq$ ₹50 crore	2 years
Partnership Firms / LLPs	All partners must independently meet individual AI criteria	1–2 years (same as individuals)
Sole Proprietorships	Treated as Individuals	1–2 years
Accredited Investors with Global Qualification (optional)	May get fast-track recognition based on regulatory guidance	Case-by-case

Annex 5: PMS v AIF

Parameter	Category II AIF	Discretionary PMS
Structure	Pooled Fund (Trust/LLP/Company)	Segregated portfolios per client
Registration Net Worth	Sponsor/Manager: lower of 2.5% or 5 cr	₹5 cr minimum
Minimum Investor Ticket	₹1 crore	₹50 lakh
Minimum Corpus	₹20 crore	No fund corpus; per-client basis
Investor Type	HNIs, NRIs, Institutions	HNIs, NRIs, Institutions
Unlisted Equity Investment	100% allowed	Upto 25%; 100% for Accredited Investors**
Lock-in Period	Minimum 3 years (closed-end fund)	No mandatory lock-in
Co-Investment	Allowed via Co-Investment Vehicles*	Built-in per-client deal choice
Taxation	Pass-through for capital gains	Taxed directly in client's hands
Regulatory Touch	Heavier (diversification, valuation)	Lighter (simpler compliance)

Annex 6: Co-Investment Vehicles: Regulatory Features

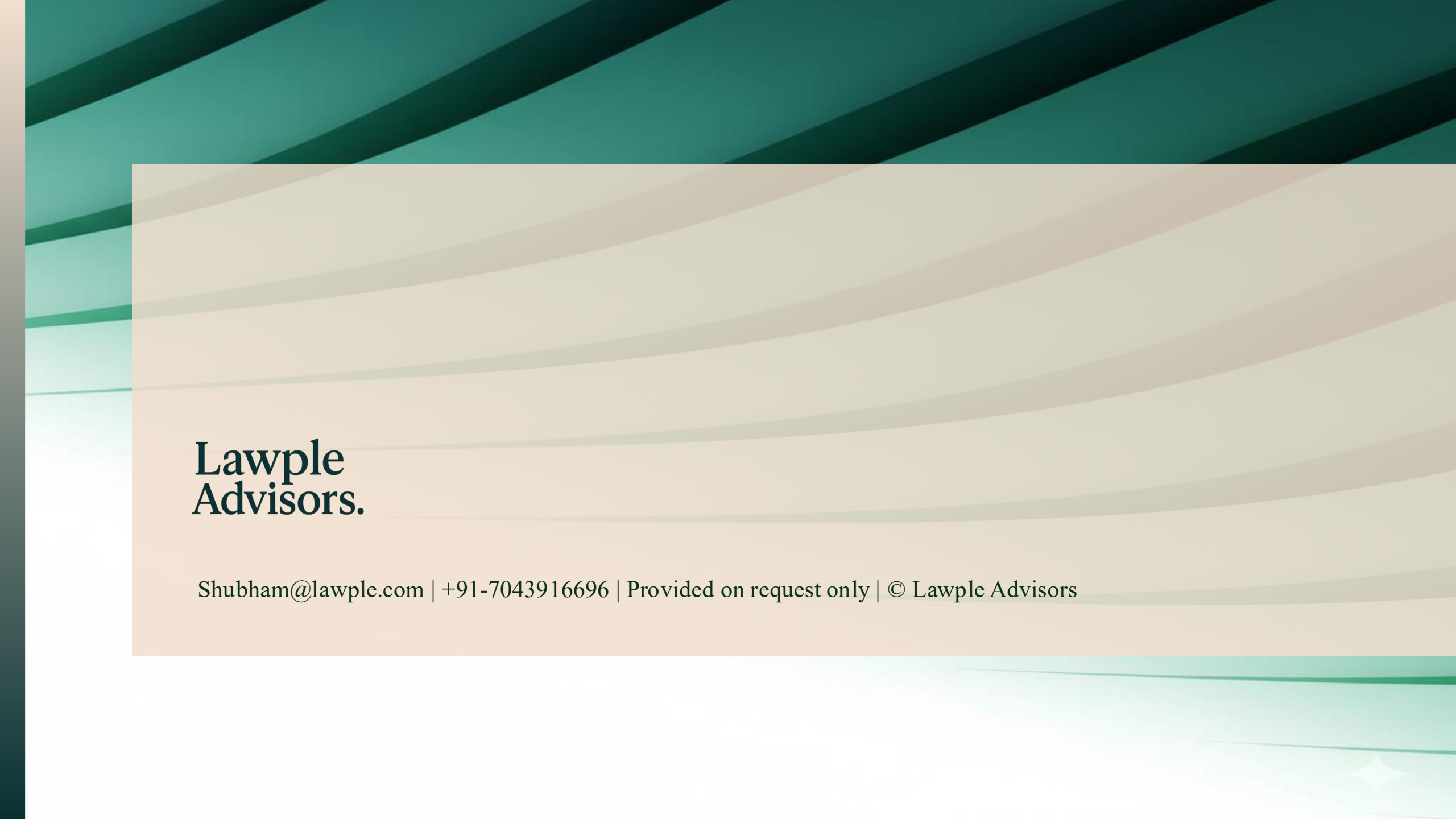
Particulars	Details
Regulatory Basis	SEBI AIF Regulations
Parent Structure	Must be sponsored by an existing Category II AIF
Sponsor / Manager	Same as AIF manager; no separate registration required
Investor Eligibility	Only Accredited Investors who are already investors in the parent AIF
Participation	Optional & deal-by-deal basis
Purpose	To enable selective co-investment alongside AIF in a specific investee company
Investment Restrictions	CIV must invest only in the same investee company as the AIF
Minimum Investment per CIV	No additional minimum (falls under overall AIF minimum of ₹1 crore per investor)
Number of CIVs	Multiple CIVs can be created for different deals
Lock-in	Depends on underlying investment and CIV structure
Custody / Valuation / Audit	CIVs must follow same norms as AIF: independent custodian, periodic valuation, audited reporting

Annex 7: PMS v AIF with Co-investment Vehicles (CIV)

Parameter	PMS Registration (Non-discretionary)	AIFs with CIV
Structure	Each client has a separate portfolio	Main fund (pooled) + deal-by-deal CIVs
SEBI Regime	PMS Regulations, 2020	AIF Regulations, 2012 (w/ 2024-25 CIV amendments)
Entity	LLP (Manager)	LLP (Sponsor/Manager) + Trust/LLP (AIF + CIVs)
Minimum Investment	₹50 lakh per client	₹1 crore per investor (₹25 lakh for insiders)
Corpus Requirement	None	₹20 crore for AIF scheme (₹10 crore for Angel)
Unlisted Investment Limit	Max 25%; 100% if investor is Accredited	100% permitted in AIF and CIVs
Deal-by-Deal Participation	Built-in (client chooses each investment)	Via CIVs – opt-in per deal
Lock-in / Liquidity	No lock-in	Lock-in for AIF (~3+ yrs); CIVs can vary
NRI Participation	Allowed with FEMA-compliant PMS setup	More streamlined via AIF (esp. pooling)
Custodian Requirement	Yes (for discretionary PMS)	Mandatory for AIF/CIVs

Annex 8: Legal Service Providers Scope





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