UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series XIX-A

Alternative Investment Funds (Category I and II) Distributors

Private equity, venture, debt and real-estate funds explained for distributors: structure, fees, due diligence, documents, valuation and tax.

100 QUESTIONS · 120 MINUTES · PASS 60% · 13 UNITS

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ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series XIX-A is required for anyone distributing Category I and Category II alternative investment funds in India. It covers the world of alternatives, the SEBI framework, how funds are structured and how an investor should assess and monitor them, with a heavy emphasis on due diligence.

100	120 min	60%	25% of marks
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Wealth managers, private bankers, mutual fund distributors, advisers and relationship managers who place client money in Category I and II AIFs, and professionals who want to understand private markets.

How this guide works

1. Read the unit overview
2. Study each concept card
3. Say the example aloud
4. Check the watch-outs
5. Take the unit mock

Each unit opens with its exam weight, so you know where marks are. Each concept card gives the idea, a worked example, and the mistake the exam wants you to make. The same ideas power the five mock tests on the UpperCrust Academy app, which get harder one by one.

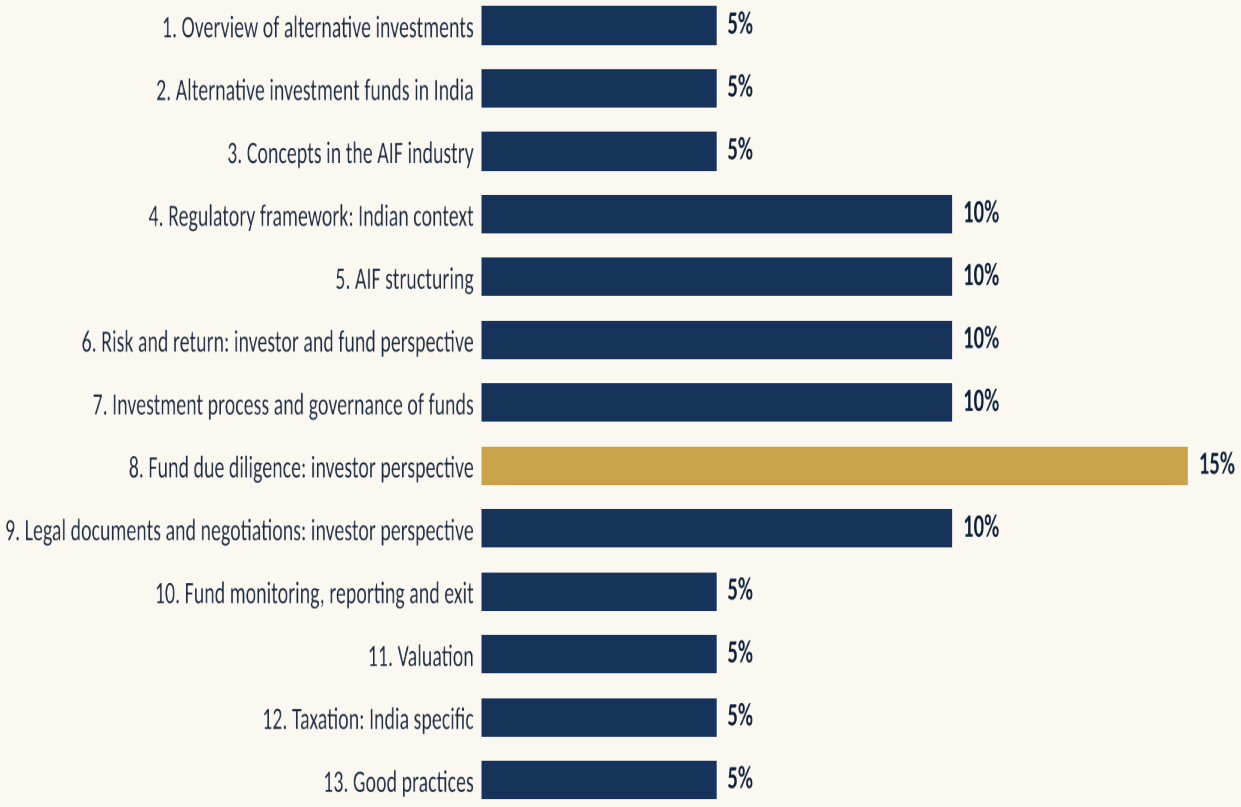
> **Keep this in mind**
>
> NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	80 multiple-choice questions plus 5 case-based sets (4 questions each); the mocks here use scenario questions in place of cases
Questions and marks	100 questions, 1 mark each, 100 marks
Duration	2 hours
Passing score	60 marks (60%)
Negative marking	25% of a question's marks, so 0.25 per wrong answer
Certificate validity	Three years; renew through NISM
Where it leads	Distribution of Category I and II AIFs, with AMFI registration

Where the marks are



Read the chart like an examiner

Units above 10% decide most results. Master them first, then use the small units for easy marks. A unit worth 3% still supplies three marks at no extra effort once you have the concepts.

YOUR STUDY PLAN

Time follows marks.

The bar shows how the exam is split across units. Spend your hours in the same proportion.



Unit	Marks	Share of study time	Suggested days
1. Overview of alternative investments	5	5%	1
2. Alternative investment funds in India	5	5%	1
3. Concepts in the AIF industry	5	5%	1
4. Regulatory framework: Indian context	10	10%	2
5. AIF structuring	10	10%	2
6. Risk and return: investor and fund perspective	10	10%	2
7. Investment process and governance of funds	10	10%	2
8. Fund due diligence: investor perspective	15	15%	3
9. Legal documents and negotiations: investor perspective	10	10%	2
10. Fund monitoring, reporting and exit	5	5%	1
11. Valuation	5	5%	1
12. Taxation: India specific	5	5%	1
13. Good practices	5	5%	1
Revision and five mocks			7

The mock ladder

1 Mock 1 Foundation ▶ 2 Mock 2 Core ▶ 3 Mock 3 Applied ▶ 4 Mock 4 Exam level ▶ 5 Mock 5 Beyond exam

Take Mock 1 after your first pass through the guide. Move to the next mock only when you score 15 marks above the pass mark. Review every wrong answer in the app; each one links back to its unit.

UNIT 1 · 5% OF THE EXAM

Overview of alternative investments

What counts as alternative, how it differs from listed equity and debt, and the main strategies.

What the exam looks for

- Characteristics of alternatives.
- Private equity, venture, hedge, real assets.

Concept cards

01

Alternative investments

Alternative investments are assets other than listed equity, bonds and cash, such as private equity, venture capital, hedge funds, real estate and infrastructure.

EXAMPLE An investor puts money in an unlisted growth company through a fund.

WATCH OUT Not true: alternative investments are the same as listed shares.

02

Private equity

Private equity invests in unlisted companies, usually taking significant ownership, with the aim of growing value and exiting later.

EXAMPLE A fund buys a stake in a private manufacturer to expand it.

WATCH OUT Not true: private equity invests only in listed companies.

03

Venture capital

Venture capital funds early-stage, high-growth companies, accepting high failure rates for the chance of outsized returns.

EXAMPLE A fund backs a start-up with a new technology.

WATCH OUT Not true: venture capital funds only mature, stable firms.

04

Hedge fund strategies

Hedge funds use strategies such as long-short, market-neutral, event-driven and macro, often with leverage and derivatives.

EXAMPLE A fund buys undervalued shares and sells overvalued ones short.

WATCH OUT Not true: hedge funds can only buy and hold equities.

05

Illiquidity

Alternatives are typically illiquid, with money locked for years and limited exit options before the end of the fund's life.

EXAMPLE An investor cannot withdraw until the fund winds up.

WATCH OUT Not true: alternatives offer daily redemption.

06

Low correlation

Many alternatives show low correlation with listed markets, offering diversification, though valuations are less frequent.

EXAMPLE A real-estate fund does not move with the stock market.

WATCH OUT Not true: alternatives always move exactly with equities.

07

Manager skill

Returns from alternatives depend heavily on manager skill, so dispersion between top and bottom managers is wide.

EXAMPLE The gap between the best and worst PE fund is large.

WATCH OUT Not true: all alternative managers deliver similar returns.

Unit recap · one line each

Alternative investments · Private equity · Venture capital · Hedge fund strategies · Illiquidity · Low correlation · Manager skill

UNIT 2 · 5% OF THE EXAM

Alternative investment funds in India

The Indian AIF market, its categories and the investors it serves.

What the exam looks for

- Category I, II and III.
- Eligible investors and limits.

AIF categories

Category	Includes	Notes
I	Venture capital, SME, social venture, infrastructure, angel funds	Invests in sectors the government wants to encourage
II	PE, debt funds, fund of funds	No leverage; most common
III	Hedge funds, PIPE	May use leverage and trade listed derivatives

Concept cards

01

Alternative Investment Fund

An AIF is a privately pooled investment vehicle that raises money from investors for investing as per a defined policy, regulated by SEBI.

EXAMPLE A trust pools ₹100 crore from wealthy investors for private investments.

WATCH OUT Not true: an AIF raises money from the general public.

02

Category I AIF

Category I AIFs invest in start-ups, early-stage ventures, SMEs, social ventures and infrastructure that the government considers socially or economically desirable.

EXAMPLE A venture capital fund backing start-ups.

WATCH OUT Not true: category I AIFs use high leverage.

03

Category II AIF

Category II AIFs, such as private equity and debt funds, do not undertake leverage except for day-to-day operational needs and are not given specific incentives.

EXAMPLE A private equity fund investing in unlisted companies.

WATCH OUT Not true: category II AIFs are hedge funds trading with leverage.

04

Category III AIF

Category III AIFs, such as hedge funds, employ diverse or complex trading strategies and may use leverage and trade listed derivatives.

EXAMPLE A long-short equity fund using derivatives.

WATCH OUT Not true: category III AIFs cannot use leverage.

05

Angel fund

An angel fund is a sub-category of Category I that pools money from angel investors to invest in early-stage start-ups, with smaller minimums.

EXAMPLE An angel network invests in seed-stage ventures.

WATCH OUT Not true: an angel fund invests in listed blue-chips.

06

Minimum investment

Each investor in an AIF must invest at least ₹1 crore, with a lower limit of ₹25 lakh for angel funds and employees or directors of the AIF's manager.

EXAMPLE An investor needs to commit at least ₹1 crore.

WATCH OUT Not true: the minimum investment is ₹10,000.

07

Minimum corpus

An AIF scheme must have a corpus of at least ₹20 crore (₹5 crore for an angel fund) before it begins investing.

EXAMPLE A fund must raise ₹20 crore to begin.

WATCH OUT Not true: an AIF can start with any amount.

08

Number of investors

An AIF scheme cannot have more than 1,000 investors (200 for angel funds) as it raises money through private placement.

EXAMPLE A scheme caps its investor count at 1,000.

WATCH OUT Not true: an AIF can have unlimited investors.

09

Accredited investor

An accredited investor is one who meets income or net worth criteria and is recognised for certain relaxations in the AIF framework.

EXAMPLE A highly wealthy investor is certified with an accreditation agency.

WATCH OUT Not true: an accredited investor is a retail depositor.

Unit recap · one line each

Alternative Investment Fund · Category I AIF · Category II AIF · Category III AIF · Angel fund · Minimum investment · Minimum corpus · Number of investors · Accredited investor

UNIT 3 · 5% OF THE EXAM

Concepts in the AIF industry

The vocabulary of private funds: commitment, drawdown, J-curve, GP and LP, and fees.

What the exam looks for

- Commitment and drawdown.
- J-curve.
- Carry, hurdle and catch-up.

Waterfall



Concept cards

01

Commitment

A commitment is the total amount an investor agrees to invest in the fund, to be called in instalments over time.

EXAMPLE An investor commits ₹5 crore but pays as and when the fund asks.

WATCH OUT Not true: a commitment is paid in full on day one.

02

Drawdown

A drawdown or capital call is the manager's notice to investors to pay a portion of their commitment for an investment or expenses.

EXAMPLE An investor receives a notice asking for 20% of the commitment.

WATCH OUT Not true: a drawdown is a distribution of profits.

03

General partner and limited partner

The GP (manager) runs the fund; LPs (investors) provide the capital and have limited liability and no role in daily decisions.

EXAMPLE The manager makes investment decisions while investors supply capital.

WATCH OUT Not true: lPs manage the fund's day-to-day investments.

04

J-curve

The J-curve describes how returns in a private fund are negative in early years due to fees and unrealised investments, then rise as investments mature and exit.

EXAMPLE A fund shows losses in years 1 to 3 and gains later.

WATCH OUT Not true: private funds show high returns from the first year.

05

Management fee

The management fee is a yearly percentage of commitments or invested capital charged to cover the manager's operating costs, regardless of performance.

EXAMPLE A manager charges 2% of commitments every year.

WATCH OUT Not true: the management fee is paid only on profits.

06

Carried interest

Carried interest is the manager's share of fund profits, commonly 20%, earned after investors receive their capital and preferred return.

EXAMPLE The manager gets 20% of profits above the hurdle.

WATCH OUT Not true: carried interest is paid before investors get their capital back.

07

Hurdle rate

The hurdle rate or preferred return is the minimum return investors must receive before the manager earns carry.

EXAMPLE Investors get 10% a year before the manager shares profits.

WATCH OUT Not true: the hurdle rate is the management fee.

08

Catch-up

A catch-up lets the manager receive a larger share of distributions after the hurdle until it has received its full carry percentage of total profits.

EXAMPLE After the hurdle, the manager gets most of the next distributions until it has 20% of profit.

WATCH OUT Not true: a catch-up reduces the manager's carry.

09

Clawback

A clawback requires the manager to return excess carry if, over the fund's life, it received more than its entitled share.

EXAMPLE The manager repays carry after later losses wipe out earlier profits.

WATCH OUT Not true: a clawback lets managers keep any carry paid.

10

Distribution waterfall

The waterfall sets the order in which distributions are paid: return of capital, preferred return, catch-up and then the carry split.

EXAMPLE Proceeds first return investors' capital and then pay the hurdle.

WATCH OUT Not true: the waterfall pays the manager's carry first.

11

IRR and MOIC

IRR measures annualised return accounting for timing of flows; MOIC is total value divided by invested capital, ignoring time.

EXAMPLE A fund returns 2 times the capital over five years.

WATCH OUT Not true: mOIC accounts for the timing of cash flows.

12

DPI, RVPI and TVPI

DPI is distributions divided by paid-in capital, RVPI is residual value divided by paid-in capital, and TVPI is their sum.

EXAMPLE A fund has returned half of the capital paid in and holds more.

WATCH OUT Not true: dPI includes unrealised value.

13

Vintage year

The vintage year is the year in which a fund first invested; funds are compared with others of the same vintage.

EXAMPLE A fund launched in 2018 is compared with other 2018 funds.

WATCH OUT Not true: vintage year is the year of exit.

Unit recap · one line each

Commitment · Drawdown · General partner and limited partner · J-curve · Management fee · Carried interest · Hurdle rate · Catch-up · Clawback · Distribution waterfall · IRR and MOIC · DPI, RVPI and TVPI · Vintage year

UNIT 4 · 10% OF THE EXAM

Regulatory framework: Indian context

The SEBI (Alternative Investment Funds) Regulations, 2012 and what they require of funds, sponsors, managers and distributors.

What the exam looks for

- Registration and categories.
- Investment conditions.
- Sponsor commitment and tenure.
- Obligations of distributors.

₹1 cr	₹20 cr	3 yrs	1,000
MIN INVESTMENT	MIN CORPUS	MIN TENURE	MAX INVESTORS

Concept cards

01

SEBI AIF Regulations 2012

These regulations govern registration, investment conditions, disclosure and operation of AIFs in India.

EXAMPLE The rules under which the fund must register and operate.

WATCH OUT Not true: aIFs are outside SEBI's regulation.

02

Registration

An AIF must be registered with SEBI under one of the three categories before it raises funds.

EXAMPLE A fund obtains a certificate before collecting commitments.

WATCH OUT Not true: an AIF can start raising money before registration.

03

Private placement memorandum

The PPM is the offer document of an AIF, filed with SEBI through a merchant banker, describing strategy, fees, risks and terms.

EXAMPLE An investor reads the document before committing to the fund.

WATCH OUT Not true: the PPM is not required for AIFs.

04

Sponsor and manager commitment

Sponsor or manager must invest in the fund as 'skin in the game': 2.5% of the corpus or ₹5 crore, whichever is lower, for Category I and II.

EXAMPLE The sponsor puts its own money in the fund.

WATCH OUT Not true: sponsors need not invest in the AIF.

05

Tenure of Category I and II

Category I and II AIFs must be closed-ended with a minimum tenure of three years, and extension is allowed with investor consent.

EXAMPLE A PE fund has a ten-year life with a possible extension.

WATCH OUT Not true: a Category II fund can be open-ended.

06

Concentration limit

Category I and II AIFs may not invest more than 25% of investable funds in one investee company.

EXAMPLE A fund limits any single investee to a quarter of its funds.

WATCH OUT Not true: a Category II AIF may invest all funds in one company.

07

Leverage limits

Category I and II AIFs cannot borrow except for short-term needs, within strict limits, while Category III may use leverage up to a stated limit.

EXAMPLE A Category II fund cannot use borrowing to magnify returns.

WATCH OUT Not true: category II AIFs may leverage up to 5 times.

08

Investments in associates

Investments in associates and the manager's related parties need to be disclosed and approved by investors as per the regulations.

EXAMPLE A fund invests in a related company only with proper approval.

WATCH OUT Not true: related-party investments need no disclosure.

09

Custodian

AIFs are required to appoint a custodian to safekeep their securities, as mandated by SEBI.

EXAMPLE An independent custodian holds the fund's assets.

WATCH OUT Not true: aIFs hold securities with no custodian.

10

Benchmarking and reporting

AIFs must report performance to benchmarking agencies recognised by SEBI, supporting comparability and transparency.

EXAMPLE A fund's performance is reported to an independent benchmarking provider.

WATCH OUT Not true: aIFs never report performance.

11

Distributor requirements

Distributors of AIFs must hold the NISM XIX-A certification and follow the code of conduct, including disclosure and suitability.

EXAMPLE A distributor with a valid certificate offers a Category II fund.

WATCH OUT Not true: any person may distribute AIFs without certification.

12

Direct plan

AIFs must provide an option for investors to invest directly, without a distributor, and distribution commissions should be transparent.

EXAMPLE An investor chooses to invest without paying a distributor.

WATCH OUT Not true: aIFs may not be bought directly.

13

No public offering

AIFs cannot raise money through a public offer; they raise capital only by private placement.

EXAMPLE A fund cannot advertise a public offer.

WATCH OUT Not true: an AIF may issue an IPO for its units.

14

Disclosure and investor reporting

Managers must give investors periodic reports, including audited financials and NAV, within timelines set by SEBI.

EXAMPLE A fund sends quarterly updates and an annual audit.

WATCH OUT Not true: managers need not report to investors.

15

Winding up

On the end of tenure, the fund must liquidate or distribute assets in specie, with approvals as required.

EXAMPLE At term end, assets are sold or handed to investors.

WATCH OUT Not true: a fund continues forever after the tenure ends.

16

Penalties

SEBI can penalise AIFs, managers and distributors for violations, including by suspension or cancellation.

EXAMPLE A distributor is penalised for mis-selling an AIF.

WATCH OUT Not true: sEBI has no power over AIF distributors.

Unit recap · one line each

SEBI AIF Regulations 2012 · Registration · Private placement memorandum · Sponsor and manager commitment · Tenure of Category I and II · Concentration limit · Leverage limits · Investments in associates · Custodian · Benchmarking and reporting · Distributor requirements · Direct plan · No public offering · Disclosure and investor reporting · Winding up · Penalties

UNIT 5 · 10% OF THE EXAM

AIF structuring

Legal forms, fund-of-funds, feeders and who the parties to a fund are.

What the exam looks for

- Trust, LLP and company.
- Parties to an AIF.
- Pass-through and feeder structures.

Concept cards

01

Trust structure

Most AIFs are set up as trusts, with a trustee holding the fund's assets for investors as beneficiaries, giving flexibility and pass-through tax treatment.

EXAMPLE A fund is a trust with a trustee and beneficiaries.

WATCH OUT Not true: most AIFs are public limited companies.

02

LLP and company forms

An AIF can also be set up as a limited liability partnership or a company, but trusts are the most common form.

EXAMPLE A fund is structured as an LLP.

WATCH OUT Not true: an AIF can only be a trust.

03

Sponsor

The sponsor is the person who sets up the AIF, and typically contributes capital and appoints the manager.

EXAMPLE The firm that creates the fund and invests its own money.

WATCH OUT Not true: the sponsor is an investor with no role in formation.

04

Investment manager

The investment manager manages the fund's portfolio and operations under an investment management agreement, earning fees.

EXAMPLE A company makes the investment decisions of the fund.

WATCH OUT Not true: the manager is an investor in the fund.

05

Trustee

The trustee holds the fund's assets in trust and is responsible for oversight and ensuring the fund follows its documents.

EXAMPLE An entity ensures the trust deed is complied with.

WATCH OUT Not true: the trustee decides which companies to invest in.

06

Fund of funds

A fund of funds invests in other AIFs rather than directly in companies, adding diversification but another layer of fees.

EXAMPLE A Category II fund invests in several PE funds.

WATCH OUT Not true: a fund of funds invests directly in start-ups.

07

Feeder fund

A feeder fund collects money from investors and invests it in a master fund, often used for foreign investors or to pool distributions.

EXAMPLE A fund channels investor money into a larger master fund.

WATCH OUT Not true: a feeder fund invests in listed shares only.

08

Scheme versus fund

An AIF can launch multiple schemes under one registration, each with its own investors, strategy and tenure.

EXAMPLE A registered fund offers a new scheme every year.

WATCH OUT Not true: an AIF can launch only one scheme.

09

Co-investment

Co-investment lets selected investors invest directly alongside the fund in a deal, often with lower fees, subject to regulatory conditions.

EXAMPLE An investor is offered a direct stake in a deal alongside the fund.

WATCH OUT Not true: co-investment is prohibited.

10

GIFT City funds

Funds set up in GIFT City's IFSC can pool money in foreign currency and are governed by a separate regulatory framework.

EXAMPLE A fund set up in the international financial centre raises dollar capital.

WATCH OUT Not true: gIFT City funds are restricted to domestic rupee investing.

11

Pass-through

In a pass-through structure, income is taxed in the investors' hands rather than at the fund level, preserving the character of income.

EXAMPLE Investors are taxed on the fund's capital gains directly.

WATCH OUT Not true: pass-through means the fund pays all the tax.

12

Side pocket

A side pocket separates illiquid or distressed assets from the main portfolio so that exits and fees of other investors are not affected.

EXAMPLE A fund isolates a stuck investment for later realisation.

WATCH OUT Not true: a side pocket merges all assets into one pool.

Unit recap · one line each

Trust structure · LLP and company forms · Sponsor · Investment manager · Trustee · Fund of funds · Feeder fund · Scheme versus fund · Co-investment · GIFT City funds · Pass-through · Side pocket

UNIT 6 · 10% OF THE EXAM

Risk and return: investor and fund perspective

The risks specific to private funds, how returns are measured and what they depend on.

What the exam looks for

- Risks: liquidity, valuation, concentration, manager.
- Return measures and drivers.

Concept cards

01

Liquidity risk in AIFs

AIF investors cannot redeem on demand; capital is locked for the tenure and exit depends on the fund's realisations.

EXAMPLE An investor needs cash but the fund has two more years to run.

WATCH OUT Not true: aIF units can be redeemed any day.

02

Valuation risk

Unlisted assets are valued by models and judgement, so reported NAV can differ from realised value.

EXAMPLE A fund's marked value drops when the asset is sold for less.

WATCH OUT Not true: valuation risk does not arise in private assets.

03

Concentration risk

AIFs often hold a small number of investments, so one failure can have a large impact on returns.

EXAMPLE A fund with ten investments loses heavily when one fails.

WATCH OUT Not true: aIFs are always well diversified across hundreds of assets.

04

Manager and key-person risk

Returns depend on the skill and continuity of the manager's team; the departure of key people can damage a fund.

EXAMPLE A star investor leaves the fund house.

WATCH OUT Not true: manager risk does not matter for AIFs.

05

Leverage risk

Use of debt, at fund or investee level, amplifies gains and losses and may cause distress in downturns.

EXAMPLE An investee with heavy debt struggles when rates rise.

WATCH OUT Not true: leverage lowers the risk of losses.

06

Exit risk

The returns of a private fund rely on exits via IPO, sale or buyback, which depend on market conditions and may be delayed.

EXAMPLE A fund cannot list its investee because markets are weak.

WATCH OUT Not true: exit is guaranteed at the fund's tenure.

07

Regulatory and tax risk

Changes in law or tax treatment can reduce net returns or alter the structure.

EXAMPLE A change in tax rules reduces after-tax returns.

WATCH OUT Not true: regulations never change for AIFs.

08

Return expectations

Alternatives aim to deliver higher returns than listed markets as compensation for illiquidity and risk, but outcomes vary widely.

EXAMPLE A PE fund targets a premium over equity indices.

WATCH OUT Not true: aIFs guarantee a return above listed markets.

09

Risk-adjusted performance

Because private assets are valued infrequently, volatility looks low; investors should look at drawdowns, dispersion and realised returns.

EXAMPLE An advisor looks at realised returns instead of reported NAV smoothness.

WATCH OUT Not true: low reported volatility proves low risk.

10

Dispersion of returns

The difference between top and bottom funds is large in private markets, so manager selection matters more than in listed funds.

EXAMPLE The best PE fund greatly outperforms the worst.

WATCH OUT Not true: all funds in a category perform alike.

11

Fees and net returns

Management fees, carry and expenses reduce net returns, so investors compare returns after all costs.

EXAMPLE A fund's gross multiple looks good but net is lower after fees.

WATCH OUT Not true: gross returns are what investors receive.

12

Concentration limits as risk control

Regulatory limits on single-investee exposure help to reduce concentration risk in Category I and II AIFs.

EXAMPLE A fund cannot put more than 25% in one company.

WATCH OUT Not true: there are no limits on a single investment.

Unit recap · one line each

Liquidity risk in AIFs · Valuation risk · Concentration risk · Manager and key-person risk · Leverage risk · Exit risk · Regulatory and tax risk · Return expectations · Risk-adjusted performance · Dispersion of returns · Fees and net returns · Concentration limits as risk control

UNIT 7 · 10% OF THE EXAM

Investment process and governance of funds

How a fund finds, chooses, monitors and exits investments, and how it governs itself.

What the exam looks for

- Deal sourcing to exit.
- Investment committee and advisory committee.
- Conflicts and key-person clauses.

Investment process



Concept cards

01

Deal sourcing

Sourcing is how a manager finds investment opportunities, through networks, bankers and proprietary research.

EXAMPLE A manager receives a deal from a banker.

WATCH OUT Not true: sourcing means selecting an auditor.

02

Screening

Screening filters opportunities against the fund's strategy, size, sector and risk criteria before detailed work begins.

EXAMPLE A manager rejects deals outside its target sector.

WATCH OUT Not true: screening is the final approval of the investment.

03

Investee due diligence

The manager studies the investee's business, financials, legal and tax position and management before investing.

EXAMPLE A fund examines the target company's books and contracts.

WATCH OUT Not true: due diligence is carried out only after the investment.

04

Investment committee

The investment committee reviews and approves investments, applying independent judgement and recording decisions.

EXAMPLE A panel votes on each deal before funds are committed.

WATCH OUT Not true: the committee approves only fees.

05

Term sheet

A term sheet sets the key terms of an investment, such as valuation, rights and conditions, before definitive agreements.

EXAMPLE The manager and company agree the main terms in a short document.

WATCH OUT Not true: a term sheet is the final legal agreement.

06

Active involvement

Many private funds take board seats and help investees with strategy, hiring and governance to create value.

EXAMPLE A fund representative joins the investee's board.

WATCH OUT Not true: funds never engage with investees.

07

Monitoring investments

Managers track investee performance through reports, board meetings and key metrics, and intervene when needed.

EXAMPLE A fund reviews monthly MIS from its investee.

WATCH OUT Not true: monitoring ends once money is invested.

08

Advisory committee

An advisory committee of investors reviews conflicts, valuations and other matters referred by the manager, giving investors a voice.

EXAMPLE Investors on a committee approve related-party deals.

WATCH OUT Not true: the committee manages day-to-day investments.

09

Conflict of interest policy

The manager must have a policy to identify, disclose and manage conflicts, such as allocating deals between funds.

EXAMPLE A fund discloses how a deal is shared across its funds.

WATCH OUT Not true: conflicts of interest do not arise in private funds.

10

Key-person clause

A key-person clause suspends new investments if named individuals leave or devote less time, protecting investors.

EXAMPLE The fund stops investing when the lead partner departs.

WATCH OUT Not true: a key-person clause guarantees returns.

11

Allocation of investments

Managers should allocate opportunities fairly across funds and co-investors according to policy.

EXAMPLE A deal is split among funds based on a stated allocation rule.

WATCH OUT Not true: managers may favour the fund where they earn the most fees.

12

Exit planning

Exit routes include IPO, strategic sale, secondary sale and buyback, and planning begins early in the investment.

EXAMPLE A fund sells its stake to a larger company.

WATCH OUT Not true: exit planning begins after the fund term ends.

Unit recap · one line each

Deal sourcing · Screening · Investee due diligence · Investment committee · Term sheet · Active involvement · Monitoring investments · Advisory committee · Conflict of interest policy · Key-person clause · Allocation of investments · Exit planning

UNIT 8 · 15% OF THE EXAM

Fund due diligence: investor perspective

The most important unit for a distributor: how to evaluate a fund before recommending it. Expect scenario questions.

What the exam looks for

- Manager track record and team.
- Strategy and terms review.
- Operational and legal due diligence.
- Red flags.

Due diligence stages



Concept cards

01

Fund due diligence

Due diligence is the investor's independent assessment of a fund and its manager before committing, covering people, process, performance, terms and operations.

EXAMPLE A distributor reviews a fund thoroughly before recommending it to a client.

WATCH OUT Not true: due diligence is unnecessary if the fund is SEBI-registered.

02

Track record analysis

A manager's track record should be checked for realised returns, consistency, attribution and whether the team that earned it is still present.

EXAMPLE An adviser reviews a manager's exits and the team behind them.

WATCH OUT Not true: only unrealised mark-ups should be considered.

03

Team stability

Stability and depth of the investment team, incentives and succession are critical to the fund's success.

EXAMPLE A fund where senior members have left raises concerns.

WATCH OUT Not true: team changes have no effect on a fund.

04

Strategy fit

The fund's strategy should be clear, repeatable and consistent with the client's goals, risk appetite and horizon.

EXAMPLE A fund's focus on late-stage companies is compared with the client's needs.

WATCH OUT Not true: any strategy suits any client.

05

Alignment of interest

Alignment is shown by meaningful manager commitment, performance-linked pay and fees that reward results rather than assets alone.

EXAMPLE The manager invests a large sum of its own money.

WATCH OUT Not true: alignment means the manager has no money in the fund.

06

Fee review

Investors should review management fee, carry, hurdle, catch-up, expenses and clawback to understand their total cost.

EXAMPLE A distributor compares the fee structures of two funds.

WATCH OUT Not true: only the management fee matters.

07

Operational due diligence

ODD examines back-office systems, valuation process, compliance, custody and controls to check that the manager can run the fund reliably.

EXAMPLE A review of the fund's administrators, auditors and valuation policy.

WATCH OUT Not true: operational checks are not needed for good performers.

08

Legal due diligence

Legal DD reviews the offer documents, structure, regulatory standing and litigation to ensure investor protection.

EXAMPLE A lawyer checks the trust deed and the PPM.

WATCH OUT Not true: legal review is only about taxes.

09

Reference checks

Speaking with existing investors, investee CEOs and co-investors gives independent views on the manager's conduct and value addition.

EXAMPLE An adviser calls entrepreneurs the manager has backed.

WATCH OUT Not true: references should be taken only from the manager.

10

Performance attribution

Attribution separates returns due to skill from those due to market conditions, leverage or one lucky investment.

EXAMPLE An adviser checks whether one deal produced most of the gains.

WATCH OUT Not true: attribution is the same as total return.

11

Portfolio concentration review

Reviewing the fund's concentration by company, sector and vintage reveals risks of overexposure.

EXAMPLE A fund has half its capital in one sector.

WATCH OUT Not true: concentration review is irrelevant for private funds.

12

Valuation policy review

Investors should check how the fund values holdings, how often, and who reviews valuations, to avoid inflated NAVs.

EXAMPLE A fund uses an independent valuer under a documented policy.

WATCH OUT Not true: valuations can be set by the manager without any policy.

13

Red flags

Red flags include unclear strategy, no track record, excessive fees, weak controls, related-party deals, resistance to disclosure and promised returns.

EXAMPLE A manager promises a return of 25% a year and refuses to share documents.

WATCH OUT Not true: promised high returns are a sign of safety.

14

Compliance and regulatory standing

Checking registration, past SEBI actions and compliance history helps assess the manager's integrity.

EXAMPLE An adviser checks the manager's regulatory record.

WATCH OUT Not true: past regulatory actions are irrelevant.

15

Concentration of investor base

A fund dependent on one or two large investors may face redemption or governance pressure; diverse investors are generally healthier.

EXAMPLE A fund where one investor holds most units.

WATCH OUT Not true: a single large investor makes a fund safer.

16

Client suitability for AIFs

AIFs suit investors with surplus funds who can lock money for years and tolerate loss; not those needing liquidity.

EXAMPLE A client needing money in two years is not a fit.

WATCH OUT Not true: aIFs suit every client regardless of horizon.

17

Documentation of due diligence

Distributors should document the due diligence and reasons for recommending a fund, to evidence suitability.

EXAMPLE A file records the checks made before recommending the fund.

WATCH OUT Not true: records of due diligence are unnecessary.

18

Ongoing manager review

Due diligence does not end at investment; monitoring continues through reports, meetings and performance reviews.

EXAMPLE An adviser reviews the fund's quarterly report each time it arrives.

WATCH OUT Not true: after investing, no further review is needed.

Unit recap · one line each

Fund due diligence · Track record analysis · Team stability · Strategy fit · Alignment of interest · Fee review · Operational due diligence · Legal due diligence · Reference checks · Performance attribution · Portfolio concentration review · Valuation policy review · Red flags · Compliance and regulatory standing · Concentration of investor base · Client suitability for AIFs · Documentation of due diligence · Ongoing manager review

UNIT 9 · 10% OF THE EXAM

Legal documents and negotiations: investor perspective

What documents govern an AIF investment and which clauses protect investors.

What the exam looks for

- PPM, subscription and contribution agreements.
- Trust deed and IMA.
- Side letters and key clauses.

Concept cards

01

Private placement memorandum

The PPM is the principal disclosure document describing the fund's strategy, terms, fees, risks and governance.

EXAMPLE A prospective investor reads the PPM before signing.

WATCH OUT Not true: the PPM is signed by the investor as a contract.

02

Contribution agreement

The contribution (or subscription) agreement is the contract in which the investor commits capital to the fund on set terms.

EXAMPLE An investor signs to commit ₹3 crore under the fund's terms.

WATCH OUT Not true: a contribution agreement is a loan agreement.

03

Trust deed

The trust deed sets up the fund as a trust, defining the roles of trustee, sponsor and manager, and the rights of beneficiaries.

EXAMPLE A legal document creates the trust and sets its rules.

WATCH OUT Not true: the trust deed is a marketing brochure.

04

Investment management agreement

The IMA appoints the manager and sets its duties, authority, fees and standards of care.

EXAMPLE A contract between the trustee and the investment manager.

WATCH OUT Not true: the IMA is an agreement among investors only.

05

Side letter

A side letter gives an individual investor special rights or terms, such as reporting or fee discounts, separate from the main documents.

EXAMPLE A large investor negotiates a lower fee in a separate letter.

WATCH OUT Not true: a side letter changes terms for all investors.

06

Most-favoured-nation clause

An MFN clause lets an investor elect the better terms granted to other investors in comparable side letters.

EXAMPLE An investor opts for a lower fee granted to another investor.

WATCH OUT Not true: an MFN clause gives the manager the best terms.

07

Default provisions

If an investor fails to meet a capital call, the fund can impose penalties, such as forfeiting part of the interest or reducing its holding.

EXAMPLE A defaulting investor loses part of its stake.

WATCH OUT Not true: missing a capital call has no consequences.

08

No-fault removal

A no-fault removal clause lets investors remove the manager by a supermajority vote without proving misconduct.

EXAMPLE Investors vote to replace the manager though no wrongdoing is alleged.

WATCH OUT Not true: the manager can be removed only for fraud.

09

Indemnification

Indemnification clauses protect the manager from liability for acts in good faith but should exclude fraud, gross negligence and wilful default.

EXAMPLE The manager is protected unless it acts fraudulently.

WATCH OUT Not true: the manager is indemnified for fraud.

10

Distribution provisions

These set how and when proceeds are distributed, including the waterfall, reinvestment rights and in-specie distributions.

EXAMPLE The fund pays investors in cash or in shares as per terms.

WATCH OUT Not true: distributions are at the manager's whim.

11

Term and extension

The term clause states the fund's life and the conditions under which it can be extended, normally needing investor approval.

EXAMPLE A fund can extend by two years with the vote of investors.

WATCH OUT Not true: the manager may extend the term at any time.

12

Investor transfer rights

The documents set conditions for transferring units, usually needing manager consent, as the fund is illiquid.

EXAMPLE An investor needs approval to sell her units.

WATCH OUT Not true: units can be freely traded on exchanges.

13

Negotiating priorities

Investors, especially large ones, negotiate on fees, governance rights, reporting, key-person triggers and transfer terms.

EXAMPLE An anchor investor seeks a seat on the advisory committee.

WATCH OUT Not true: investor terms cannot be negotiated.

14

Governing law and disputes

The documents specify governing law, jurisdiction and dispute resolution, often through arbitration.

EXAMPLE Disputes go to arbitration in India as per the agreement.

WATCH OUT Not true: documents are silent on disputes.

15

Disclosures of risk factors

The PPM must list material risks; investors should read them and not rely on verbal assurances.

EXAMPLE An investor relies on the written risk factors.

WATCH OUT Not true: verbal assurances override written documents.

Unit recap · one line each

Private placement memorandum · Contribution agreement · Trust deed · Investment management agreement · Side letter · Most-favoured-nation clause · Default provisions · No-fault removal · Indemnification · Distribution provisions · Term and extension · Investor transfer rights · Negotiating priorities · Governing law and disputes · Disclosures of risk factors

UNIT 10 · 5% OF THE EXAM

Fund monitoring, reporting and exit

Staying informed after investing and how exits return money.

What the exam looks for

- Reporting.
- Exit routes.
- Winding up.

Concept cards

01

Investor reporting

Managers provide regular reports such as NAV, portfolio updates, audited accounts and notice of material events.

EXAMPLE An investor receives a quarterly report with portfolio commentary.

WATCH OUT Not true: managers need not report until the end of the fund.

02

Capital account statement

A statement showing the investor's contributions, distributions, fees and current value.

EXAMPLE An investor reads her statement of units and paid-in capital.

WATCH OUT Not true: the statement shows the manager's personal investments.

03

IPO exit

An IPO lets the fund sell shares of an investee to the public after listing, often subject to lock-in.

EXAMPLE A fund sells shares after the investee lists.

WATCH OUT Not true: an IPO exit is not available to PE funds.

04

Strategic sale

A strategic sale transfers the investee to another company, often at a premium.

EXAMPLE A larger company buys the investee outright.

WATCH OUT Not true: a strategic sale is a stock market listing.

05

Secondary sale

A secondary sale transfers the fund's stake to another financial investor, such as another PE fund.

EXAMPLE A fund sells its stake to a different investment fund.

WATCH OUT Not true: a secondary sale is the fund's first investment.

06

Buyback by promoter

In a promoter buyback, the founders repurchase the fund's stake, often at a pre-agreed return.

EXAMPLE The founders buy out the fund's stake.

WATCH OUT Not true: a promoter buyback is a new fundraising.

07

In-specie distribution

In-specie distribution gives investors the underlying securities instead of cash when the fund winds up or at exit.

EXAMPLE An investor receives listed shares instead of cash.

WATCH OUT Not true: in-specie means paying in foreign currency.

08

Winding up

On termination the fund realises or distributes remaining assets, settles liabilities and returns proceeds per the waterfall.

EXAMPLE At the end of term the trust is closed and assets are paid out.

WATCH OUT Not true: winding up leaves investors' capital with the manager.

Unit recap · one line each

Investor reporting · Capital account statement · IPO exit · Strategic sale · Secondary sale · Buyback by promoter · In-specie distribution · Winding up

UNIT 11 · 5% OF THE EXAM

Valuation

How private assets are valued and why it matters for NAV and fees.

What the exam looks for

- Valuation methods.
- Independent valuation.
- Frequency and guidelines.

Concept cards

01

Fair value

Fair value is the price at which an asset could be sold in an orderly transaction between market participants at the measurement date.

EXAMPLE A fund estimates what an unlisted holding would fetch in a sale today.

WATCH OUT Not true: fair value equals the purchase cost always.

02

Discounted cash flow

DCF values an asset as the present value of expected future cash flows.

EXAMPLE A valuer projects future cash flows and discounts them.

WATCH OUT Not true: dCF uses only the last transaction price.

03

Comparable multiples

This method values a company using multiples such as EV/EBITDA of similar listed firms, adjusted for size and liquidity.

EXAMPLE A valuer applies peers' EV/EBITDA to the investee's earnings.

WATCH OUT Not true: comparable multiples need no peer companies.

04

Last round price

The price of a recent funding round is a data point for fair value, but it may need adjustment if conditions change.

EXAMPLE A start-up is valued by its latest financing.

WATCH OUT Not true: the last round price is always right.

05

Cost basis

Valuing at cost is acceptable only for a short period after investment, until better evidence is available.

EXAMPLE A newly bought stake is held at cost for a while.

WATCH OUT Not true: cost is the right basis for old investments.

06

Independent valuer

SEBI requires valuation of an AIF's investments by an independent valuer for certain funds, and valuation should be done at regular intervals.

EXAMPLE An independent firm values the portfolio every half year.

WATCH OUT Not true: the manager alone may value its holdings.

07

IPEV guidelines

The International Private Equity and Venture Capital valuation guidelines are a widely used standard for valuing private holdings.

EXAMPLE A fund follows a global standard for valuation.

WATCH OUT Not true: iPEV guidelines apply to listed shares.

08

Valuation and fees

Because fees can depend on NAV or invested capital, inflated valuations can overstate performance and fees, so independent checks matter.

EXAMPLE An inflated NAV can raise a manager's fee.

WATCH OUT Not true: valuation has no link to fees.

Unit recap · one line each

Fair value · Discounted cash flow · Comparable multiples · Last round price · Cost basis · Independent valuer · IPEV guidelines · Valuation and fees

UNIT 12 · 5% OF THE EXAM

Taxation: India specific

How AIFs and their investors are taxed.

What the exam looks for

- Pass-through for Category I and II.
- Category III taxation.
- Character of income.

Concept cards

01

Pass-through status

Category I and II AIFs enjoy pass-through status: income other than business income is taxed in the investors' hands, retaining its character.

EXAMPLE Capital gains of the fund are taxed in the investor's hands.

WATCH OUT Not true: category II AIFs pay tax on all income at the fund level.

02

Business income of AIF

Business income earned by a Category I or II AIF is taxed at the fund level and is not passed through.

EXAMPLE A fund's trading business profit is taxed at the fund.

WATCH OUT Not true: all fund income is taxed in the investor's hands.

03

Category III taxation

Category III AIFs do not get pass-through status in the same way; income is generally taxed at the fund level as per the Act.

EXAMPLE A hedge fund's profits are taxed within the fund.

WATCH OUT Not true: category III AIFs are fully pass-through.

04

Character retained

Because of pass-through, gains retain their nature, such as long-term capital gains, when taxed in the investor's hands.

EXAMPLE A long-term gain in the fund remains long-term for the investor.

WATCH OUT Not true: gains lose their character after passing through.

05

TDS on distributions

Tax is deducted at source on income distributed to investors by pass-through AIFs at the rates prescribed, with credit available to the investor.

EXAMPLE The fund deducts tax at the time of distributing income.

WATCH OUT Not true: aIFs never deduct TDS.

06

GST on fees

Management fees and certain charges to the fund may attract goods and services tax, affecting net returns.

EXAMPLE A fee invoice carries GST.

WATCH OUT Not true: gST is not applicable on any fee.

07

Tax on carry

The manager's carried interest is taxed in its hands according to the nature of income, such as capital gains or business income.

EXAMPLE A manager's carry is reported in its own tax return.

WATCH OUT Not true: carry is taxed in the investors' hands.

08

Tax planning limits

Distributors should not provide tax advice beyond their remit; investors should consult a tax professional.

EXAMPLE A distributor suggests the client check with her tax adviser.

WATCH OUT Not true: distributors should give detailed tax opinions.

Unit recap · one line each

Pass-through status · Business income of AIF · Category III taxation · Character retained · TDS on distributions · GST on fees · Tax on carry · Tax planning limits

UNIT 13 · 5% OF THE EXAM

Good practices

Conduct, ethics and the duties of distributors and managers.

What the exam looks for

- Distributor conduct.
- Disclosure and suitability.
- KYC and AML.

Concept cards

01

Suitability

A distributor must assess a client's financial position, experience, risk appetite and horizon before recommending an AIF.

EXAMPLE A distributor declines to sell an AIF to a client who needs funds soon.

WATCH OUT Not true: suitability applies only to mutual funds.

02

Disclosure to investors

A distributor must give investors the PPM and explain risks, fees, lock-in and illiquidity before they invest.

EXAMPLE A distributor explains the lock-in and fees upfront.

WATCH OUT Not true: risk factors can be skipped if the client is wealthy.

03

No guaranteed returns

Neither managers nor distributors may promise or guarantee returns on AIFs, and statements must be fair and balanced.

EXAMPLE A distributor must not say, 'This fund will give 20% for sure.'

WATCH OUT Not true: distributors may guarantee returns for large clients.

04

Commission disclosure

Distributors must disclose the commissions they receive and ensure that the client knows direct options exist.

EXAMPLE A distributor tells the client about the fee she gets.

WATCH OUT Not true: commissions need not be disclosed.

05

KYC and AML

Investors must complete KYC and anti-money laundering checks, and the source of funds should be verified.

EXAMPLE The distributor checks identity and the origin of money.

WATCH OUT Not true: kYC is waived for large investments.

06

Conflicts of interest

Distributors must avoid or disclose conflicts, such as higher commission on a product, and put client interest first.

EXAMPLE A distributor discloses that one fund pays more and recommends the better fit.

WATCH OUT Not true: a distributor should recommend the highest-commission fund.

07

Confidentiality

A distributor must protect client information and share it only with consent or as required by law.

EXAMPLE A distributor does not share a client's holdings with others.

WATCH OUT Not true: client data may be sold to fund managers.

08

Record keeping

Distributors should maintain records of recommendations, risk profiling, disclosures and communication for the period required.

EXAMPLE A file holds the client's risk profile and the PPM acknowledgement.

WATCH OUT Not true: records of AIF sales are optional.

Unit recap · one line each

Suitability · Disclosure to investors · No guaranteed returns · Commission disclosure · KYC and AML · Conflicts of interest · Confidentiality · Record keeping

QUICK REFERENCE

Numbers and formulas.

AIF categories

Category	Examples	Leverage
I	Venture capital, SME, social venture, infrastructure, angel funds	Not permitted (except short-term needs)
II	Private equity, debt funds, fund of funds	Not permitted (except short-term needs)
III	Hedge funds, long-short, PIPE	Permitted, limited to a multiple of NAV

Key numbers

Item	Value
Minimum investment	₹1 crore (angel fund ₹25 lakh)
Minimum fund corpus	₹20 crore (angel fund ₹5 crore)
Maximum investors per scheme	1,000 (angel fund 200)
Minimum tenure, Cat I and II	3 years (closed-ended)
Sponsor commitment, Cat I and II	2.5% of corpus or ₹5 crore, whichever is lower

Fund metrics

Metric	Meaning
IRR	Annualised return considering cash flow timing
MOIC	Total value ÷ invested capital
DPI	Distributions ÷ paid-in capital
RVPI	Residual value ÷ paid-in capital
TVPI	DPI + RVPI

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Accredited investor	An accredited investor is one who meets income or net worth criteria and is recognised for certain relaxations in the AIF framework.	2
Active involvement	Many private funds take board seats and help investees with strategy, hiring and governance to create value.	7
Advisory committee	An advisory committee of investors reviews conflicts, valuations and other matters referred by the manager, giving investors a voice.	7
Alignment of interest	Alignment is shown by meaningful manager commitment, performance-linked pay and fees that reward results rather than assets alone.	8
Allocation of investments	Managers should allocate opportunities fairly across funds and co-investors according to policy.	7
Alternative Investment Fund	An AIF is a privately pooled investment vehicle that raises money from investors for investing as per a defined policy, regulated by SEBI.	2
Alternative investments	Alternative investments are assets other than listed equity, bonds and cash, such as private equity, venture capital, hedge funds, real estate and infrastructure.	1
Angel fund	An angel fund is a sub-category of Category I that pools money from angel investors to invest in early-stage start-ups, with smaller minimums.	2
Benchmarking and reporting	AIFs must report performance to benchmarking agencies recognised by SEBI, supporting comparability and transparency.	4
Business income of AIF	Business income earned by a Category I or II AIF is taxed at the fund level and is not passed through.	12
Buyback by promoter	In a promoter buyback, the founders repurchase the fund's stake, often at a pre-agreed return.	10
Capital account statement	A statement showing the investor's contributions, distributions, fees and current value.	10
Carried interest	Carried interest is the manager's share of fund profits, commonly 20%, earned after investors receive their capital and preferred return.	3
Catch-up	A catch-up lets the manager receive a larger share of distributions after the hurdle until it has received its full carry percentage of total profits.	3
Category I AIF	Category I AIFs invest in start-ups, early-stage ventures, SMEs, social ventures and infrastructure that the government considers socially or economically desirable.	2
Category II AIF	Category II AIFs, such as private equity and debt funds, do not undertake leverage except for day-to-day operational needs and are not given specific incentives.	2
Category III AIF	Category III AIFs, such as hedge funds, employ diverse or complex trading strategies and may use leverage and trade listed derivatives.	2
Category III taxation	Category III AIFs do not get pass-through status in the same way; income is generally taxed at the fund level as per the Act.	12
Character retained	Because of pass-through, gains retain their nature, such as long-term capital gains, when taxed in the investor's hands.	12
Clawback	A clawback requires the manager to return excess carry if, over the fund's life, it received more than its entitled share.	3

Term	Meaning	Unit
Client suitability for AIFs	AIFs suit investors with surplus funds who can lock money for years and tolerate loss; not those needing liquidity.	8
Co-investment	Co-investment lets selected investors invest directly alongside the fund in a deal, often with lower fees, subject to regulatory conditions.	5
Commission disclosure	Distributors must disclose the commissions they receive and ensure that the client knows direct options exist.	13
Commitment	A commitment is the total amount an investor agrees to invest in the fund, to be called in instalments over time.	3
Comparable multiples	This method values a company using multiples such as EV/EBITDA of similar listed firms, adjusted for size and liquidity.	11
Compliance and regulatory standing	Checking registration, past SEBI actions and compliance history helps assess the manager's integrity.	8
Concentration limit	Category I and II AIFs may not invest more than 25% of investable funds in one investee company.	4
Concentration limits as risk control	Regulatory limits on single-investee exposure help to reduce concentration risk in Category I and II AIFs.	6
Concentration of investor base	A fund dependent on one or two large investors may face redemption or governance pressure; diverse investors are generally healthier.	8
Concentration risk	AIFs often hold a small number of investments, so one failure can have a large impact on returns.	6
Confidentiality	A distributor must protect client information and share it only with consent or as required by law.	13
Conflict of interest policy	The manager must have a policy to identify, disclose and manage conflicts, such as allocating deals between funds.	7
Conflicts of interest	Distributors must avoid or disclose conflicts, such as higher commission on a product, and put client interest first.	13
Contribution agreement	The contribution (or subscription) agreement is the contract in which the investor commits capital to the fund on set terms.	9
Cost basis	Valuing at cost is acceptable only for a short period after investment, until better evidence is available.	11
Custodian	AIFs are required to appoint a custodian to safekeep their securities, as mandated by SEBI.	4
Deal sourcing	Sourcing is how a manager finds investment opportunities, through networks, bankers and proprietary research.	7
Default provisions	If an investor fails to meet a capital call, the fund can impose penalties, such as forfeiting part of the interest or reducing its holding.	9
Direct plan	AIFs must provide an option for investors to invest directly, without a distributor, and distribution commissions should be transparent.	4
Disclosure and investor reporting	Managers must give investors periodic reports, including audited financials and NAV, within timelines set by SEBI.	4
Disclosure to investors	A distributor must give investors the PPM and explain risks, fees, lock-in and illiquidity before they invest.	13

Term	Meaning	Unit
Disclosures of risk factors	The PPM must list material risks; investors should read them and not rely on verbal assurances.	9
Discounted cash flow	DCF values an asset as the present value of expected future cash flows.	11
Dispersion of returns	The difference between top and bottom funds is large in private markets, so manager selection matters more than in listed funds.	6
Distribution provisions	These set how and when proceeds are distributed, including the waterfall, reinvestment rights and in-specie distributions.	9
Distribution waterfall	The waterfall sets the order in which distributions are paid: return of capital, preferred return, catch-up and then the carry split.	3
Distributor requirements	Distributors of AIFs must hold the NISM XIX-A certification and follow the code of conduct, including disclosure and suitability.	4
Documentation of due diligence	Distributors should document the due diligence and reasons for recommending a fund, to evidence suitability.	8
DPI, RVPI and TVPI	DPI is distributions divided by paid-in capital, RVPI is residual value divided by paid-in capital, and TVPI is their sum.	3
Drawdown	A drawdown or capital call is the manager's notice to investors to pay a portion of their commitment for an investment or expenses.	3
Exit planning	Exit routes include IPO, strategic sale, secondary sale and buyback, and planning begins early in the investment.	7
Exit risk	The returns of a private fund rely on exits via IPO, sale or buyback, which depend on market conditions and may be delayed.	6
Fair value	Fair value is the price at which an asset could be sold in an orderly transaction between market participants at the measurement date.	11
Fee review	Investors should review management fee, carry, hurdle, catch-up, expenses and clawback to understand their total cost.	8
Feeder fund	A feeder fund collects money from investors and invests it in a master fund, often used for foreign investors or to pool distributions.	5
Fees and net returns	Management fees, carry and expenses reduce net returns, so investors compare returns after all costs.	6
Fund due diligence	Due diligence is the investor's independent assessment of a fund and its manager before committing, covering people, process, performance, terms and operations.	8
Fund of funds	A fund of funds invests in other AIFs rather than directly in companies, adding diversification but another layer of fees.	5
General partner and limited partner	The GP (manager) runs the fund; LPs (investors) provide the capital and have limited liability and no role in daily decisions.	3
GIFT City funds	Funds set up in GIFT City's IFSC can pool money in foreign currency and are governed by a separate regulatory framework.	5
Governing law and disputes	The documents specify governing law, jurisdiction and dispute resolution, often through arbitration.	9
GST on fees	Management fees and certain charges to the fund may attract goods and services tax, affecting net returns.	12
Hedge fund strategies	Hedge funds use strategies such as long-short, market-neutral, event-driven and macro, often with leverage and derivatives.	1

Term	Meaning	Unit
Hurdle rate	The hurdle rate or preferred return is the minimum return investors must receive before the manager earns carry.	3
Illiquidity	Alternatives are typically illiquid, with money locked for years and limited exit options before the end of the fund's life.	1
In-specie distribution	In-specie distribution gives investors the underlying securities instead of cash when the fund winds up or at exit.	10
Indemnification	Indemnification clauses protect the manager from liability for acts in good faith but should exclude fraud, gross negligence and wilful default.	9
Independent valuer	SEBI requires valuation of an AIF's investments by an independent valuer for certain funds, and valuation should be done at regular intervals.	11
Investee due diligence	The manager studies the investee's business, financials, legal and tax position and management before investing.	7
Investment committee	The investment committee reviews and approves investments, applying independent judgement and recording decisions.	7
Investment management agreement	The IMA appoints the manager and sets its duties, authority, fees and standards of care.	9
Investment manager	The investment manager manages the fund's portfolio and operations under an investment management agreement, earning fees.	5
Investments in associates	Investments in associates and the manager's related parties need to be disclosed and approved by investors as per the regulations.	4
Investor reporting	Managers provide regular reports such as NAV, portfolio updates, audited accounts and notice of material events.	10
Investor transfer rights	The documents set conditions for transferring units, usually needing manager consent, as the fund is illiquid.	9
IPEV guidelines	The International Private Equity and Venture Capital valuation guidelines are a widely used standard for valuing private holdings.	11
IPO exit	An IPO lets the fund sell shares of an investee to the public after listing, often subject to lock-in.	10
IRR and MOIC	IRR measures annualised return accounting for timing of flows; MOIC is total value divided by invested capital, ignoring time.	3
J-curve	The J-curve describes how returns in a private fund are negative in early years due to fees and unrealised investments, then rise as investments mature and exit.	3
Key-person clause	A key-person clause suspends new investments if named individuals leave or devote less time, protecting investors.	7
KYC and AML	Investors must complete KYC and anti-money laundering checks, and the source of funds should be verified.	13
Last round price	The price of a recent funding round is a data point for fair value, but it may need adjustment if conditions change.	11
Legal due diligence	Legal DD reviews the offer documents, structure, regulatory standing and litigation to ensure investor protection.	8
Leverage limits	Category I and II AIFs cannot borrow except for short-term needs, within strict limits, while Category III may use leverage up to a stated limit.	4

Term	Meaning	Unit
Leverage risk	Use of debt, at fund or investee level, amplifies gains and losses and may cause distress in downturns.	6
Liquidity risk in AIFs	AIF investors cannot redeem on demand; capital is locked for the tenure and exit depends on the fund's realisations.	6
LLP and company forms	An AIF can also be set up as a limited liability partnership or a company, but trusts are the most common form.	5
Low correlation	Many alternatives show low correlation with listed markets, offering diversification, though valuations are less frequent.	1
Management fee	The management fee is a yearly percentage of commitments or invested capital charged to cover the manager's operating costs, regardless of performance.	3
Manager and key-person risk	Returns depend on the skill and continuity of the manager's team; the departure of key people can damage a fund.	6
Manager skill	Returns from alternatives depend heavily on manager skill, so dispersion between top and bottom managers is wide.	1
Minimum corpus	An AIF scheme must have a corpus of at least ₹20 crore (₹5 crore for an angel fund) before it begins investing.	2
Minimum investment	Each investor in an AIF must invest at least ₹1 crore, with a lower limit of ₹25 lakh for angel funds and employees or directors of the AIF's manager.	2
Monitoring investments	Managers track investee performance through reports, board meetings and key metrics, and intervene when needed.	7
Most-favoured-nation clause	An MFN clause lets an investor elect the better terms granted to other investors in comparable side letters.	9
Negotiating priorities	Investors, especially large ones, negotiate on fees, governance rights, reporting, key-person triggers and transfer terms.	9
No guaranteed returns	Neither managers nor distributors may promise or guarantee returns on AIFs, and statements must be fair and balanced.	13
No public offering	AIFs cannot raise money through a public offer; they raise capital only by private placement.	4
No-fault removal	A no-fault removal clause lets investors remove the manager by a supermajority vote without proving misconduct.	9
Number of investors	An AIF scheme cannot have more than 1,000 investors (200 for angel funds) as it raises money through private placement.	2
Ongoing manager review	Due diligence does not end at investment; monitoring continues through reports, meetings and performance reviews.	8
Operational due diligence	ODD examines back-office systems, valuation process, compliance, custody and controls to check that the manager can run the fund reliably.	8
Pass-through	In a pass-through structure, income is taxed in the investors' hands rather than at the fund level, preserving the character of income.	5
Pass-through status	Category I and II AIFs enjoy pass-through status: income other than business income is taxed in the investors' hands, retaining its character.	12
Penalties	SEBI can penalise AIFs, managers and distributors for violations, including by suspension or cancellation.	4

Term	Meaning	Unit
Performance attribution	Attribution separates returns due to skill from those due to market conditions, leverage or one lucky investment.	8
Portfolio concentration review	Reviewing the fund's concentration by company, sector and vintage reveals risks of overexposure.	8
Private equity	Private equity invests in unlisted companies, usually taking significant ownership, with the aim of growing value and exiting later.	1
Private placement memorandum	The PPM is the offer document of an AIF, filed with SEBI through a merchant banker, describing strategy, fees, risks and terms.	4
Record keeping	Distributors should maintain records of recommendations, risk profiling, disclosures and communication for the period required.	13
Red flags	Red flags include unclear strategy, no track record, excessive fees, weak controls, related-party deals, resistance to disclosure and promised returns.	8
Reference checks	Speaking with existing investors, investee CEOs and co-investors gives independent views on the manager's conduct and value addition.	8
Registration	An AIF must be registered with SEBI under one of the three categories before it raises funds.	4
Regulatory and tax risk	Changes in law or tax treatment can reduce net returns or alter the structure.	6
Return expectations	Alternatives aim to deliver higher returns than listed markets as compensation for illiquidity and risk, but outcomes vary widely.	6
Risk-adjusted performance	Because private assets are valued infrequently, volatility looks low; investors should look at drawdowns, dispersion and realised returns.	6
Scheme versus fund	An AIF can launch multiple schemes under one registration, each with its own investors, strategy and tenure.	5
Screening	Screening filters opportunities against the fund's strategy, size, sector and risk criteria before detailed work begins.	7
SEBI AIF Regulations 2012	These regulations govern registration, investment conditions, disclosure and operation of AIFs in India.	4
Secondary sale	A secondary sale transfers the fund's stake to another financial investor, such as another PE fund.	10
Side letter	A side letter gives an individual investor special rights or terms, such as reporting or fee discounts, separate from the main documents.	9
Side pocket	A side pocket separates illiquid or distressed assets from the main portfolio so that exits and fees of other investors are not affected.	5
Sponsor	The sponsor is the person who sets up the AIF, and typically contributes capital and appoints the manager.	5
Sponsor and manager commitment	Sponsor or manager must invest in the fund as 'skin in the game': 2.5% of the corpus or ₹5 crore, whichever is lower, for Category I and II.	4
Strategic sale	A strategic sale transfers the investee to another company, often at a premium.	10
Strategy fit	The fund's strategy should be clear, repeatable and consistent with the client's goals, risk appetite and horizon.	8
Suitability	A distributor must assess a client's financial position, experience, risk appetite and horizon before recommending an AIF.	13

Term	Meaning	Unit
Tax on carry	The manager's carried interest is taxed in its hands according to the nature of income, such as capital gains or business income.	12
Tax planning limits	Distributors should not provide tax advice beyond their remit; investors should consult a tax professional.	12
TDS on distributions	Tax is deducted at source on income distributed to investors by pass-through AIFs at the rates prescribed, with credit available to the investor.	12
Team stability	Stability and depth of the investment team, incentives and succession are critical to the fund's success.	8
Tenure of Category I and II	Category I and II AIFs must be closed-ended with a minimum tenure of three years, and extension is allowed with investor consent.	4
Term and extension	The term clause states the fund's life and the conditions under which it can be extended, normally needing investor approval.	9
Term sheet	A term sheet sets the key terms of an investment, such as valuation, rights and conditions, before definitive agreements.	7
Track record analysis	A manager's track record should be checked for realised returns, consistency, attribution and whether the team that earned it is still present.	8
Trust deed	The trust deed sets up the fund as a trust, defining the roles of trustee, sponsor and manager, and the rights of beneficiaries.	9
Trust structure	Most AIFs are set up as trusts, with a trustee holding the fund's assets for investors as beneficiaries, giving flexibility and pass-through tax treatment.	5
Trustee	The trustee holds the fund's assets in trust and is responsible for oversight and ensuring the fund follows its documents.	5
Valuation and fees	Because fees can depend on NAV or invested capital, inflated valuations can overstate performance and fees, so independent checks matter.	11
Valuation policy review	Investors should check how the fund values holdings, how often, and who reviews valuations, to avoid inflated NAVs.	8
Valuation risk	Unlisted assets are valued by models and judgement, so reported NAV can differ from realised value.	6
Venture capital	Venture capital funds early-stage, high-growth companies, accepting high failure rates for the chance of outsized returns.	1
Vintage year	The vintage year is the year in which a fund first invested; funds are compared with others of the same vintage.	3
Winding up	On the end of tenure, the fund must liquidate or distribute assets in specie, with approvals as required.	4

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Memorise the three AIF categories and what each may do.
- [ ] Revise minimum investment, corpus and sponsor commitment numbers.
- [ ] Practise fee waterfalls with hurdle, catch-up and carry.
- [ ] Revise the due-diligence checklist (unit 8, 15% of marks).
- [ ] Take Mock 5 with negative marking.

Exam-day tips

- Learn the SEBI numbers cold: ₹1 crore minimum, ₹20 crore corpus, 3-year minimum tenure, 1,000 investors.
- For due-diligence questions choose the answer that protects the investor, not the manager.
- For the waterfall, process in order: return of capital, preferred return, catch-up, carry split.
- Distinguish Category I, II and III by what leverage and listed derivatives they may use.
- Negative marking applies; eliminate before guessing.

Disclaimer

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