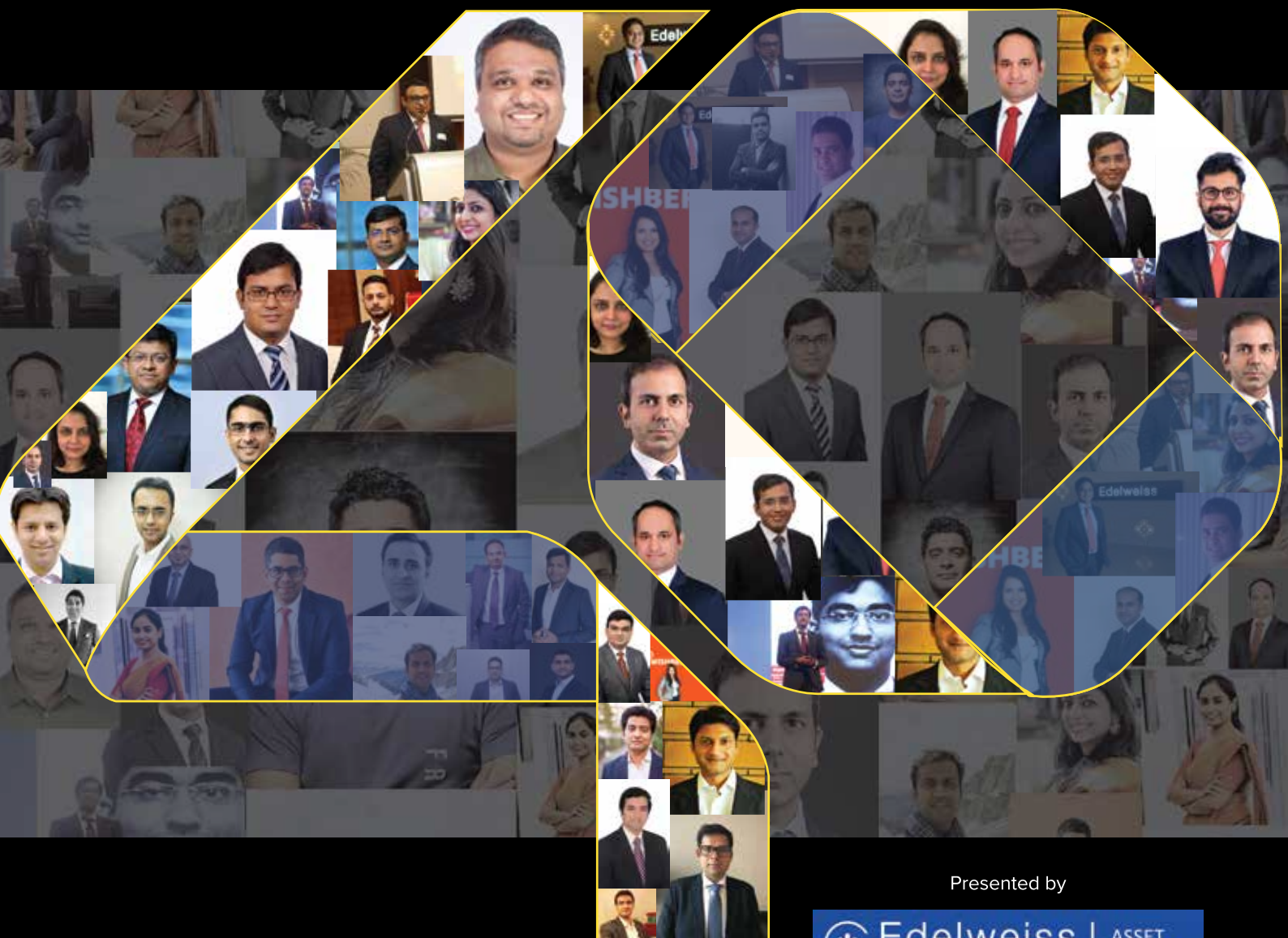


# IAAIF

INDIAN ASSOCIATION OF ALTERNATIVE INVESTMENT FUNDS

## 40 UNDER FORTY 2019



Presented by



The Indian Association of Alternative Investment Funds (IAAIF) has been established as a non-profit organization, with the objective of promoting and protecting the interests of the Alternative Investments industry in India.

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IAAIF is committed to act as representative & advocacy body devoted to promote transparency, professional standards and trust in alternative investments. IAAIF strives to promote the professional development of the alternative investments industry as well as facilitate interaction and collaboration among its members. The association also acts as a platform for dialogue on regulatory and policy issues pertaining to AIFs and building linkages among various stake-holders.

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As we get in to 2019, the alternative asset management industry is passing through an era of unprecedented expansion. The growth in funds and reach of AIFs, the mainstreaming of this asset class among the large investors and the proactive regulations are ushering this industry in its most exciting phase yet.

Once the exclusive domain of the ultra-wealthy, alternative investments are beginning to have a broader appeal. A record number of Alternative Investment Funds (AIF) have come up over the last couple of years . Today the best of the best fund managers are designing intelligent alternative investment products using strategies designed to produce higher returns within a given investment universe.

Informed investors are flocking to AIFs as they offer exposure to investment opportunities not generally available through the traditional fixed income and equity markets. The increasing VUCA nature of a dynamically changing world will keep pushing the fund managers and investors towards active management and we believe AIFs are well positioned to capitalize on this opportunities in a way other financial products cannot.

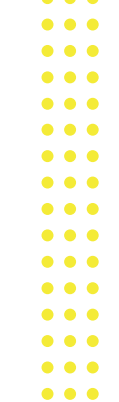
We are also welcoming a new generation of future leaders in this sector and going by our findings during the 2nd edition of our "40 under 40- Alternative Investment Professionals in India" campaign,we can confidently say that the Indian AIF sector is in good hands. The capabilities of our professionals is at par with the best in the world and its just a matter of time before they start getting their moments on the world stage. In this issue we bring to you our "40 Under 40" Champions who are your best bet for the future.

Exciting times ahead and we are always here to educate you and play a role in your transition. Please keep sharing your feedback. Happy Reading !

Best Regards,

Aditya Gadge

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## ***AIFs- The New Investment Frontier for Ultra-Rich***

**Manasee Nagarkar** - Vice President, Avendus Capital Public Markets Alternate Strategies LLP

Alternative Investment Funds (AIFs) or AIFs as they are popularly called is a relatively new concept in India introduced by SEBI in 2012 with the guidelines formulated in 2013. As per SEBI, an AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors. These funds have been gaining a lot of interest in the recent past mainly by HNIs and ultra-HNIs and have seen great acceptance in a short span of time compared to other investment products like Mutual Funds, Portfolio Management Services (PMS) and Market Linked Debentures which took much longer to find favour with these set of investors.



The commitments raised by AIFs stood at INR 1,79,585 crores at the end of June 2018 quarter, a rise of 87% from the year-ago period. This includes all the three categories of AIF across various asset categories like Angel Funds, Social Venture Funds, Venture Capital Funds, Infrastructure Funds, Debt AIF, PIPE Funds and Hedge Funds amongst others. According to the data available on the SEBI website, Category III AIFs alone saw the highest surge of over 141% during this period and have raised over INR 37,000 crores in commitments as on quarter ended June 2018. This includes hedge funds, long only public equity funds and private investments in public equity funds, among others. They use diverse or complex trading strategies and may use leverage, including investments in derivatives. This category had raised a mere INR 6,245 crores in commitments just two years ago as on quarter ended June 2016. Category III AIFs are the only ones that are allowed to use leverage and can be open-ended or close-ended in nature.



Despite the volatility witnessed in the markets in 2018, Category III AIF continued to grow at a good pace as against other categories which witnessed a slowdown, especially from March 2018 quarter to June 2018 quarter. Although the overall growth in AIFs stood at 9%, the Category III AIF witnessed a growth of 21% in this period. Initially there were only 2 to 3 players in the Hedge Fund space but over the last one year we have seen many established as well as boutique players entering this category on the back of growing interest by the uber rich.

The flexibility to take long /short positions in an AIF Category III is what has attracted HNIs to this space compared to plain vanilla Mutual Funds or long only equity portfolios. Also, the availability of a monthly liquidity option compared to the close-ended nature of other category AIFs makes this an interesting proposition. This growing interest in Category III AIFs can also be seen amongst our funds at Avendus, which has made us the largest Hedge Fund Manager in the country currently creating a distinct mark in this space. We launched our first fund in March 2017 and currently manage around USD 1 billion of assets under management across two strategies. This spurt in assets over a short span of time shows the increasing investor appetite and inclination towards such complex strategies and the desire to look at differentiated options to add value as well as returns to their portfolio. Investments in long-only mutual fund or a PMS, by nature are typically fully invested, so they are highly correlated to the benchmark which the fund looks at or the markets.

Now, if you have to hedge this portfolio as an individual investor, you need to know how to do it on your own, which may be difficult and involve higher costs as well. But hedge funds or Category III AIF offers a ready platform and an opportunity to do that, through a strategy such as long/short, which tries to bring down the volatility of taking exposure to equity markets along with a lower correlation to the markets. We at Avendus have an experience of over 13 years in managing these strategies in the onshore market and are well capitalized to offer such strategies to ultra-rich who are increasingly seeking such opportunities.

AIFs are also proving to be very operationally-efficient platforms and we think we will see these funds taking a lot of market share away, especially from PMS and even Mutual Funds to a certain extent in the near future. That trend is clearly on the rise and will become prominent as new players and different products emerge.

# New Guidelines on AIF in IFSC – India's Pitch for Offshore Fund Platform

Rajesh H. Gandhi - Partner

Karamjeet Singh - Director

Tejash Gangar - Manager

Deloitte Haskins & Sells LLP

In its bid to develop an International financial jurisdiction which can compete with major financial hubs such as Singapore, Hong Kong and Dubai, India has set up its first International Financial Services Centre (IFSC) in the Gujarat International Finance Tec-City (GIFT City). The GIFT IFSC was set up in 2015 with both the financial market regulators SEBI and RBI issuing guidelines on the entities that can be set up and the business that can be carried out in GIFT IFSC. To promote the IFSC, the government has already announced significant tax incentives and regulatory relaxations for entities set up in IFSC and as well as to entities who trade in securities listed on the stock exchanges located in the IFSC.



“

*AIFs have emerged as a new popular route for channelling investments both private as well as into the stock market.*

In a recent development, SEBI has issued operating guidelines for Alternative Investment Funds (AIFs) set up in IFSC. Before discussing AIFs in IFSC, it is important to understand the AIF product in India. AIFs have emerged as a new popular route for channelling investments both private as well as into the stock market. Category II AIFs have become popular with private equity investors particularly for debt investments and Category III AIFs are being mainly used by fund managers many of whom have launched AIFs to create a mutual fund type platform for high net worth individuals and offer different investment strategies.

<sup>1</sup> Securities and Exchange Board of India

<sup>2</sup> Reserve Bank of India



AIF is a domestic fund set up in India to pool investments from both Indian and foreign investors. The AIF Regulations were introduced by SEBI in 2012 and cover in its ambit all types of privately pooled investment vehicles. Unlike mutual funds, which are essentially collective investment vehicles, AIFs typically manage assets of a small group of high net worth investors and the minimum ticket size in AIF is significantly higher than the mutual funds. Depending on macro-economic factors, its impact on the economy and the type of proposed investments, there are **three broad categories of AIFs**.

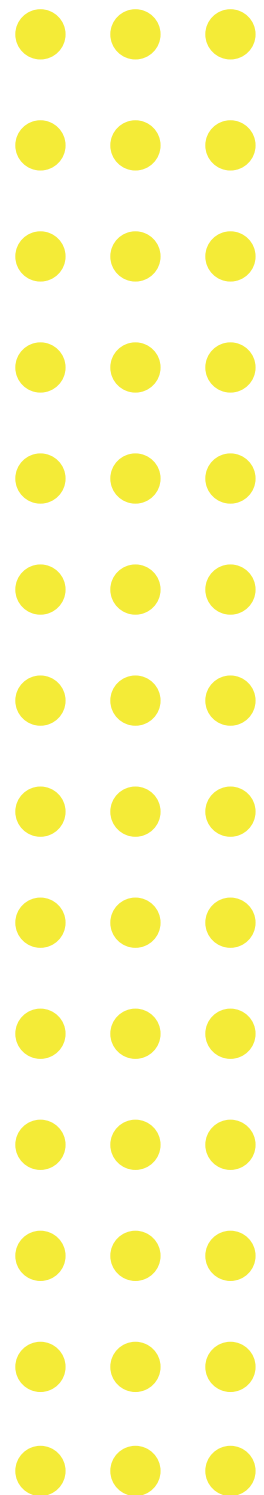
**Category I** - AIFs which invest in start-up or early stage ventures, social ventures, small and medium enterprises, infrastructure or other sectors that have a positive effect on the economy and are considered as socially and economically desirable. Includes venture capital funds, SME funds, social venture funds, infrastructure funds, angel funds, etc.

**Category II** - AIFs, which are not covered in Category I or III and do not undertake leverage or borrowing other than to meet day-to-day operational requirements. Such AIFs primarily invest in unlisted securities or Category I / II AIFs and include private equity funds or debt funds.

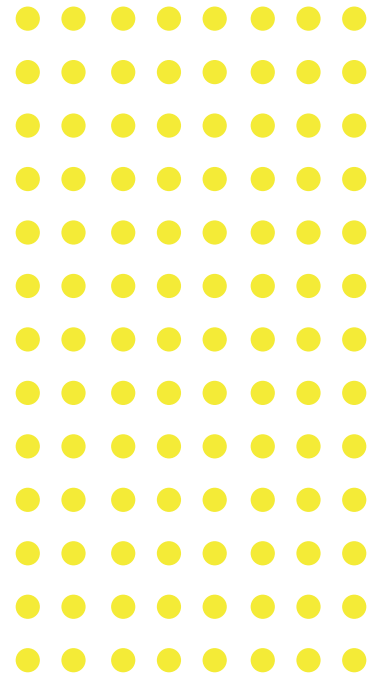
**Category III** – AIFs, which employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. These AIFs include hedge funds or fund of funds having investment strategies like long only, long-short, derivatives, absolute return etc. Category III AIFs can also invest in Category I and II AIFs.

From the tax perspective, Category I and Category II AIFs have been allowed pass through status for all the income earned except for income classified as business income (if any). The law does not specifically extend tax pass through status to Category III AIFs (unless the AIF is set-up as a trust and reliance is placed on trust taxation principles, which are complex and prone to litigation).

Though the IFSC guidelines issued by SEBI in 2015 allowed setting up of Alternative Investment Funds (AIFs) in IFSC, the detailed framework was yet to be put in place. On 26 November 2018, SEBI issued the operating guidelines for AIFs in IFSCs including the eligibility norms, permitted investments, minimum corpus & investment limits, reporting etc. With the operating guidelines now in place and the fact that GIFT IFSC offers significant cost advantages as compared to offshore jurisdictions, India dedicated funds especially in the private equity and venture capital space may prefer GIFT IFSC to set up offshore funds.







The key features of the Operating Guidelines read with IFSC Guidelines, 2015 and the relevant SEBI circular are discussed below:

### ***Registration:***

A fund set up in IFSC in the form of a trust, a company or a limited liability partnership (LLP), or a body corporate and can apply for AIF registration with SEBI. The AIF registration can be made in any one of the three categories of AIFs subject to compliance with eligibility conditions prescribed in SEBI (AIF) Regulations, 2012.

### ***Eligible investors:***

An AIF set up in IFSC can accept investments from:

- Persons resident outside India;
- Non-resident Indians;
- Institutional investors resident in India who are eligible under FEMA to invest in offshore funds subject to permissible outward investment conditions; and
- Persons resident in India and eligible under FEMA to invest in offshore funds, having minimum net worth of USD 1,000,000 during the preceding financial year and subject to Liberalized Remittance Scheme (LRS) of the RBI.



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<sup>3</sup> SEBI (International Financial Services Center) Guidelines, 2015

<sup>4</sup> SEBI Circular dated 23 May 2017

<sup>5</sup> Foreign Exchange Management Act, 1999

### ***Permissible investments:***

An AIF set up in IFSC is permitted to invest in the following securities:

- Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction
- Securities listed on stock exchanges in IFSC;
- Securities issued by companies incorporated in IFSC;
- Units of other AIFs set up in IFSC or AIFs set up in India (subject to conditions stipulated in SEBI (AIF) Regulations, 2012.

### ***Permissible route for onshore investments in Indian securities:***

An AIF set up in IFSC can make onshore investments in India under the Foreign Portfolio Investor (FPI), Foreign Direct Investment (FDI) or Foreign Venture Capital Investor (FVCI) route

### ***Minimum corpus and investments:***

The minimum corpus and investments thresholds stipulated for AIF set up in IFSC are as follows:

Particulars	Amount
Minimum corpus per scheme	USD 3 million
Minimum contribution per investor	<ul style="list-style-type: none"><li>• Employees or directors of the AIF or its manager: USD 40,000</li><li>• Other investors: USD 150,000</li></ul>
Minimum continuing interest requirement for manager or sponsor of the AIF (not through waiver of fees)	<ul style="list-style-type: none"><li>• Category I &amp; II AIF: 2.5% of corpus or USD 750,000 whichever is lower</li><li>• Category III AIF: 5% of corpus or USD 1.5 million, whichever is lower</li></ul>

### ***Manager/ sponsor of AIFs in IFSC:***

The existing sponsor/ manager of an AIF in India can set up a branch or company or LLP in IFSC. In other cases, sponsors/ managers will have to set up a company or LLP in IFSC.

### ***Requirement to appoint custodian:***

It is mandatory for Category III AIFs set up in IFSC. For Category I & II AIFs, it is mandatory to appoint a custodian if the corpus of exceeds USD 70 million.

## ***Requirements for Angel funds:***

The operating guidelines prescribe following requirements for angel funds set up in IFSC:

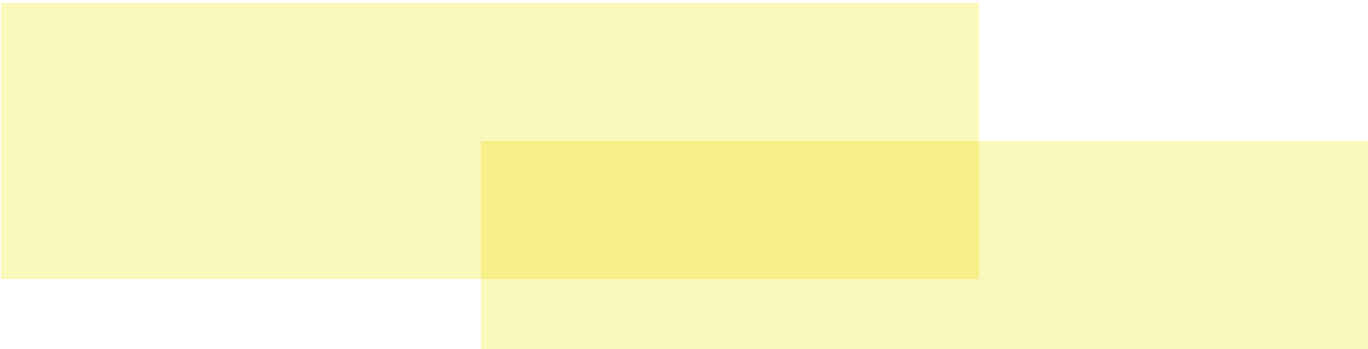
- Minimum corpus: USD 0.75 million
- Criteria specified for investor in an angel fund:
  - Individual with net tangible assets of at least USD 0.3 million (excluding value of his principal residence).
  - Body corporate which has net worth of at least USD 1.50 million.
- Angel funds in IFSC can invest in Venture Capital Undertakings (VCUs) in India, which have turnover less than USD 3.75 million and which are not promoted or sponsored or related to an industrial group whose group turnover exceeds USD 45 million. Minimum investment by Angel funds in VCUs shall be USD 40,000 subject to an upper cap of USD 1.50 million.

## ***Applicability of SEBI AIF Regulations:***

To the extent applicable, all provisions of AIF Regulations, guidelines and circulars issued by SEBI in relation to AIFs set up in India are also applicable to AIFs set up in IFSC except for overseas investments restrictions imposed in clause 2(b) of SEBI circular dated 1 October 2015.

The operating guidelines issued by SEBI is definitely a welcome move and would provide a cost efficient alternative to domestic fund managers who are looking to set up offshore funds to pool money from overseas investors. As a next step, a few amendments are needed in the tax law as well as regulations to bring the tax and regulatory regime for AIFs set up in IFSC at par with funds set up in offshore jurisdictions.

A high-level comparison of the key regulatory and tax aspects for an AIF set up in IFSC and an offshore fund is tabulated below for quick reference



<sup>6</sup>There may be a need to make suitable investments in FPI, FDI and FVCI regulations to incorporate AIFs set up in IFSC as eligible investors under these routes.



AIF set-up in IFSC	Offshore Fund	Advantage
Regulatory		
Though the IFSC guidelines clarify that an AIF set up in IFSC is permitted to invest in Indian securities under the FPI route, corresponding amendments are yet to be made to FPI Regulations to consider such AIF as an eligible FPI applicant. Further, clarity is required that an AIF set-up in IFSC can trade in securities listed on an overseas stock exchange.	An offshore Fund can invest in security of a company listed on NSE/BSE under the FPI route. Such a Fund may also to trade in securities listed on an overseas stock exchange if permitted under its home country's regulations.	Offshore Fund
Investment in AIF set-up in IFSC (except in form of venture capital funds) is not covered in 'permissible capital account transactions' under the LRS and hence, should not be permitted.	Resident individual may invest in securities of listed and unlisted overseas company under the LRS. Also, vide SEBI circular dated 21 Sep 2018, resident individuals are permitted to invest in a FPI subject to cap of 25% individually and 50% in aggregate.	Offshore Fund
Manager or Sponsor can be a new entity or a branch of existing Manager or Sponsor of AIF.	Can be a self-managed fund or managed by an entity set-up overseas.	Offshore Fund
Cost is lower in case of AIF and Manager set-up in IFSC.	Cost is relatively higher as compared to an AIF and Manager set-up in IFSC.	IFSC
Leverage is permitted only in Category III AIF capped at 2 times its Net Asset Value.	Leverage is permitted subject to laws of offshore jurisdiction.	Offshore Fund



AIF set-up in IFSC	Offshore Fund	Advantage
<b>Taxation</b>		
In case the AIF is set-up as a trust in IFSC, then the trust taxation complexities i.e. determinate or indeterminate, revocable or irrevocable etc. and consequently, determining the tax rates need to be addressed.	In case of Offshore Fund generally set-up as a company, the trust taxation complexities do not apply.	Offshore Fund
Investors of the AIF set-up in IFSC will need to obtain PAN and file tax returns in India.	While the Offshore Fund will file a tax return in India, investors in Offshore Fund need not comply with any Indian tax compliances.	Offshore Fund
Income from securities traded on a recognized stock exchange in IFSC is exempt from tax whereas taxable if such transactions are carried out on a recognized stock exchange in India.	Income from securities traded on Indian stock exchanges can be claimed not taxable in India if the fund is domiciled in a country which has a favorable tax treaty with India	Offshore Fund
Management fees received by the Manager from AIF is exempt from tax for initial 5 years and subject to 50% of the applicable tax rates for next 5 years. The fees may be subject to 9% MAT/AMT in the initial 5 years.	Management fees is generally subject to tax in offshore jurisdiction at the rates specified in the tax laws of that jurisdiction.	AIF set up in IFSC
Lack of clarity on characterization of income as capital gains or business income for Category III AIF unless it obtains FPI license.	Characterization of income as capital gains.	Offshore Fund

Permitting AIFs in the IFSC is one of the steps in the right direction to enable the IFSC to become a truly global financial centre. The new regulations have generated interest amongst fund managers especially those who have India dedicated funds. While certain regulatory amendments are needed, the model can be successful only if such AIFs are given a tax treatment on par with offshore vehicles. This includes removing the need for investors to get a PAN and file tax returns which can be a deal breaker and giving certainty to AIFs on the income classification.

One will have to wait and see if the Government gives the much needed tax boost in the Budget 2019.





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# Commodities as an Asset Class

Dr. Venkatachalam Shunmugam - Head- Research, MCX.

## Introduction

Investing in commodities is not new and it is evident from history that gold, silver, other precious metals and gems & jewellery have been bought and owned as assets globally due to their appreciation in value apart from using them for ornamental purposes. Gold has been the most widely invested asset class across the world. Nevertheless, investing in commodities as an asset was largely confined to precious metals, stones and gems and mostly holding them in physical form until three decades ago.

Commodities have evolved as an asset class during the past three decades or so with widespread investment across a large number of commodities ranging from agricultural products to industrial metals, energy products etc., following the introduction of commodity indexes and the trading strategies based on those commodity indexes. It was given by the fillip provided by the institutional setup provided by the regulators for the safekeeping of retail money.

Investments in commodity derivatives have witnessed a steep increase during early 2000s though moderated in the post financial crisis in 2008. Nonetheless, commodity markets continue to be attractive investment choice for portfolio and fund managers all over the world due to the following key advantages provided by investments in commodities.

## Advantages of Including Commodities in Portfolios

**Hedge against Inflation:** Commodities being more close to the real economy have highest positive degree of correlation with inflation compared to any other asset. Commodity prices rise with the rise in demand for goods and services as the commodities are part of production of such goods and services. Thus, commodity prices usually rise as and when there is an inflationary situation in the economy. Hence, investing in commodities can provide a hedge against inflation for portfolios. As a result, investing in commodities becomes highly suitable for long-term investors and/or savers and also funds like insurance and pension funds.

**Portfolio Diversification:** Commodities, while having a strong correlation with inflation, have relatively very low or negative correlation with other assets such as bonds and equities. Historical analysis of investment in commodities has suggested that commodities had offered the same returns with a better Sharpe ratio compared to that of equities. A study conducted by the Gorton and Rouwenhorst (2004) suggested that the long-term commodity futures returns were negatively correlated with equity returns and bond returns. Further, an examination of association between the Indian equities and commodities suggested that commodities have a strong negative correlation with equities as presented in Table 1.



*Table 1: Correlation Matrix (Jan 2011 to Sept 2017)*

	NIFTY Index	iCOM DEX	Gold Spot	Crude Spot	Copper Spot	Gold Futures	Crude Futures	Copper Futures
NIFTY Index	1							
iCOMDEX	<b>-0.84</b>	1						
Gold Spot	-0.27	0.3	1					
Crude Spot	<b>-0.69</b>	0.92	0.26	1				
Copper Spot	<b>-0.53</b>	0.82	0.32	0.81	1			
Gold Futures	-0.26	0.28	0.98	0.2	0.28	1		
Crude Futures	<b>-0.70</b>	0.92	0.27	1.0	0.81	0.2	1	
Copper Futures	<b>-0.54</b>	0.82	0.32	0.81	0.99	0.28	0.81	1

Source: Consultation Paper on permitting Mutual Funds and Portfolio Managers to participate in Commodity Derivatives Market, December 2017

**Better Risk adjusted Returns:** Inclusion of commodities in portfolio helps in minimization of overall portfolio risk and provides better risk adjusted returns compared to the portfolios without commodities under normal conditions.

**Focused product offering:** With limited number of benchmark markets (approximately 50 major markets) globally, commodities can be less tedious and time consuming to track compared with other financial asset classes.

## Major Commodity Segments

Traditional choices of commodities for investment were gold and other precious metals and gem stones. However, creation and development of commodity derivatives markets during 19th Century particularly for agricultural commodities across the world primarily for transfer of price risk generated from seasonal price fluctuations to speculators or investors from hedgers. This has led to the development of commodity derivatives markets particularly futures markets across the world covering a large number of commodities including base or industrial metals, energy products, agricultural commodities etc.

**Precious metals and gemstones:** Most widely used commodities for investment have been the precious metals, especially gold followed by silver, platinum, palladium and gemstones such as diamonds. Currently, Indian commodity exchanges are offering derivatives contracts in gold, silver and diamonds.

<sup>1</sup> Gorton Gary and K. Geert Rouwenhort (2004) 'Facts and Fantasies about Commodity Futures', NBER Working Paper Series, Working Paper 10595, National Bureau of Economic Research (NBER), June 2004.

**Industrial (base) metals:** Base metals are common, less expensive industrial non-ferrous metals. Metals and metal alloys possess high structural strength per unit of mass, which makes them useful for carrying large loads or resisting impact damage. Although there are numerous base metals, most widely traded are steel, aluminium, copper, zinc, lead, nickel and tin. Currently, futures contracts are available for aluminium, copper, zinc, lead, nickel, brass and steel on Indian commodity exchanges.

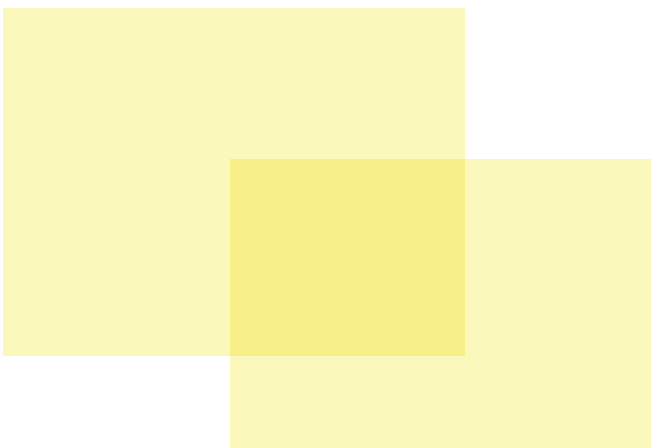
**Energy Products:** Largely traded energy products include crude oil, natural gas, electricity etc., in the world. However, in India, derivatives contracts are available for crude oil and natural gas to trade on domestic commodity exchanges.

**Agricultural Products:** Number of agricultural commodities and their products are traded across the world spreading across cereals, oilseeds and their processed products, sugar, cotton, spices, etc. At present, cotton, soya bean, soya oil, crude palm oil, chana, cardamom, mentha oil, guar seed, guar gum, jeera and castor seed are some of the largely traded agricultural products in India.

## *Evolution of Investment Options in Commodities*

Investment in commodities can be done in number of ways and it has evolved from investing in physical commodity to derivative products such as futures contracts, options contracts, indexes and their derivatives, Exchange Traded Funds (ETFs), Exchange traded Notes, Swaps, Structured Notes, Mutual Funds, etc. While commodity derivatives, particularly futures markets, have witnessed significant development in 19th Century, investing in commodities as an asset class as part of portfolios has picked up substantially in 1990s through investments in commodity index-based products and reached a peak during the early 2000s till the financial crisis in 2008. Although index-based products dominate commodity investments in portfolios, these along with a number of other products were largely derived from commodity futures.

**Commodity Derivatives** such as futures and options contracts of commodities provide investors an opportunity to take position directly in individual commodities with limited capital exposure of margin money instead of buying the commodity paying the entire amount. Development of commodity futures markets was widespread across the world including India in 1800s. Although commodity futures trading in India was erratic during the second half of 1900s, it has been revived successfully following the introduction of national level online multi-commodity exchanges in 2002-2003. Currently, commodity futures and options contracts are available on domestic commodity exchanges for number of commodities.



<sup>2</sup> Lincke David-Michael (2016) Commodities as an Asset Class: Delivering Beta and Beyond, CFA Institute Conference Proceedings Quarterly, First Quarter 2016.



## **Investment in Commodities Indices:**

Global commodity investments, particularly of institutional investors, are largely concentrated in commodity index-based products. Most of the index-based investing strategies are specific to commodity segments. Investment trends during the recent years have suggested that the segment with highest weight has been precious metals followed by energy, agriculture and base metals. Commodity indices consist of passive, rebalanced, long positions in baskets of commodity futures. Commodities exposures through index-linked benchmarks are dominated by the S&P GSCI Index and the Bloomberg Commodity (BCOM) Index (Lincke 2016).

At present, trading in commodity index is not yet allowed in India. Nevertheless, MCX has partnered with Thomson Reuters to launch a series of co-branded commodity indices in India which will track the commodity futures traded on MCX. These indices are sector-based, single product based and composite in nature and governed in accordance to the principles of best practices laid down by the International Organisation of Securities Commissions (IOSCO) for financial benchmarks.

**Mutual Funds (MFs):** Commodity-based mutual funds provide easy access to commodities in a form that is familiar to the typical investor. Commodity-based funds typically use derivative instruments that are based on commodity indices/commodities to build their exposure to commodities. Globally there are mutual funds based on commodity derivatives in the form of index fund as well as schemes that are actively managed. For instance, Invesco Balanced-Risk Commodity Strategy Fund is a popular long-short mutual fund. Fidelity® Series Commodity Strategy

Fund is a commodity futures based Mutual Fund tracking the performance Bloomberg Commodity Index Total Return. However, mutual funds participation in commodity derivatives is still not permitted in India.

**Exchange-Traded Funds:** Commodity-based exchange-traded funds (ETFs) provide investors with a low-cost means of gaining exposure to commodities. These securities represent claims to individual commodities, groups of commodities, or indices tracking commodity prices. Commodity ETFs trade on exchanges like other common stocks. Globally, the underlying instruments for the majority of commodity-based ETFs are futures contracts, but some ETFs like the SPDR Gold Trust hold the actual physical commodity in storage.

**Exchange-Traded Notes:** Commodity-based exchange-traded notes (ETNs) are non-interest-paying debt instruments that are similar to commodity-based ETFs. Like ETFs, ETNs provide a low-cost means for investors to gain exposure to individual commodities or baskets of commodities.

**Structured Notes:** Commodity-linked notes are popular with investors wishing to gain exposure to commodities without having to bear all of the price risk inherent in commodities. Commodity-linked notes combine the security of a fixed-income instrument with an exposure to commodities, generally in the form of an option or futures contract tied to a commodity index. The notes are non-interest-bearing instruments, and their maturities typically vary from one to five years. On the maturity date, the note pays the initial principal amount plus a return based on the price change of the underlying commodity instrument.



**Swaps:** Commodity swaps are over-the-counter agreements to exchange cash flows in which the cash flows depend on a notional (principal) dollar amount and changes in commodity prices. These instruments are generally used by institutions (such as pension funds and investment companies) to gain exposure to commodity prices. Because the instruments are not exchange traded, the creditworthiness of the counterparty is a consideration.

### ***Commodity investment strategies***

A number of investment strategies are available primarily using commodity indexes such as first generation index strategies, second generation index strategies, return decomposition, etc. a brief description of these indices is provided below.

**First Generation Index Strategies:** These strategies hold near-month contracts or contracts that are close to maturity and involve rolling of exposure at regular intervals depending on the availability of futures contracts. Such strategies are proved to work well when the commodity market is in backwardation, as forward curves become significantly steeper towards the expiry. But under contango, these strategies may lead to losses in the form of negative roll yield through investing near month contracts.

**Second Generation Index Strategies:** These second generation strategies evolved to reduce the negative roll yield effects of index investment. Some of the second generation index strategies include forward roll strategies, enhanced seasonal roll strategies, constant maturity roll strategies, and optimized implied roll yield strategies.

## ***State of Commodity Investing in India***

Investment in commodity markets, unlike equity markets, has not been opened for all participants particularly for most of the financial institutions including banks, pension funds, mutual funds etc. Nevertheless, the regulators, Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI), have been constantly examining and taking suitable measures for enhancing the role and participation of various institutions in commodity markets thereby, to bring liquidity and depth into Indian commodity derivatives markets and enable investors' access. Towards objective, the following measures were announced during the past one year or so.

- **Participation of Category-III AIFs in Commodity Derivatives:** SEBI allowed the Category-III Alternative Investment Funds (AIFs) to participate in the commodity derivatives on June 21, 2017, subject to the specific conditions
- **Banks Subsidiaries to Offer Broking Services:** RBI has allowed banks on September 25, 2017 to offer broking services for the commodity derivatives segment of SEBI recognized stock exchanges through a separate subsidiary.
- **Banks as Professional Clearing Members:** On September 25, 2017, RBI has also amended its Master Direction- Reserve Bank of India (Financial Services provided by Banks) Directions, 2016 to allow banks to become Professional Clearing Members of the commodity derivatives segment of SEBI recognized exchanges.

- **Consultative paper on MFs and PMs Participation:** In an effort to take seek suggestions from public, SEBI released consultation paper on permitting Mutual Funds and Portfolio Managers to participate in Commodity Derivatives Market on December 4, 2017

- **Integration of Commodities and Securities Derivative Markets:** The SEBI has notified amendments to relevant provisions in the Securities Contracts (Regulation) Rules, 1957 (SCRR) and SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. Subsequently, SEBI operationalized member or broker level integration during September 2017.

- Further, SEBI has announced in December 2017 permitting the Exchange-level integration of Commodity Derivatives Market with other segments of securities with effect from 1st October 2018.

- **EFEs Permitted to Trade in Commodity Derivatives:** In order to expand the participant base and enhance the liquidity and efficiency of Indian commodity derivatives markets, the SEBI has permitted the participation of eligible foreign Entities (EFEs) in commodity derivatives market on October 9, 2018.

Custodians in Commodity Derivatives Market to Enable Institutional Participation: The SEBI Board discussed the proposal for allowing custodial services in goods underlying commodity derivative contracts in order to enable participation of institutional investors in commodity derivatives market. In this regard, the Board approved the proposed amendments to the SEBI (Custodian of Securities) Regulations, 1996 on December 12, 2018.



## Way Forward

A number of initiatives have been taken by the regulators during the past two years towards the development of commodity derivatives markets both in terms of increasing the investor-base as well as products available for investing in commodities. Nonetheless, further efforts are essential in the following areas for a healthy growth and invisibility of Indian commodity derivatives markets.

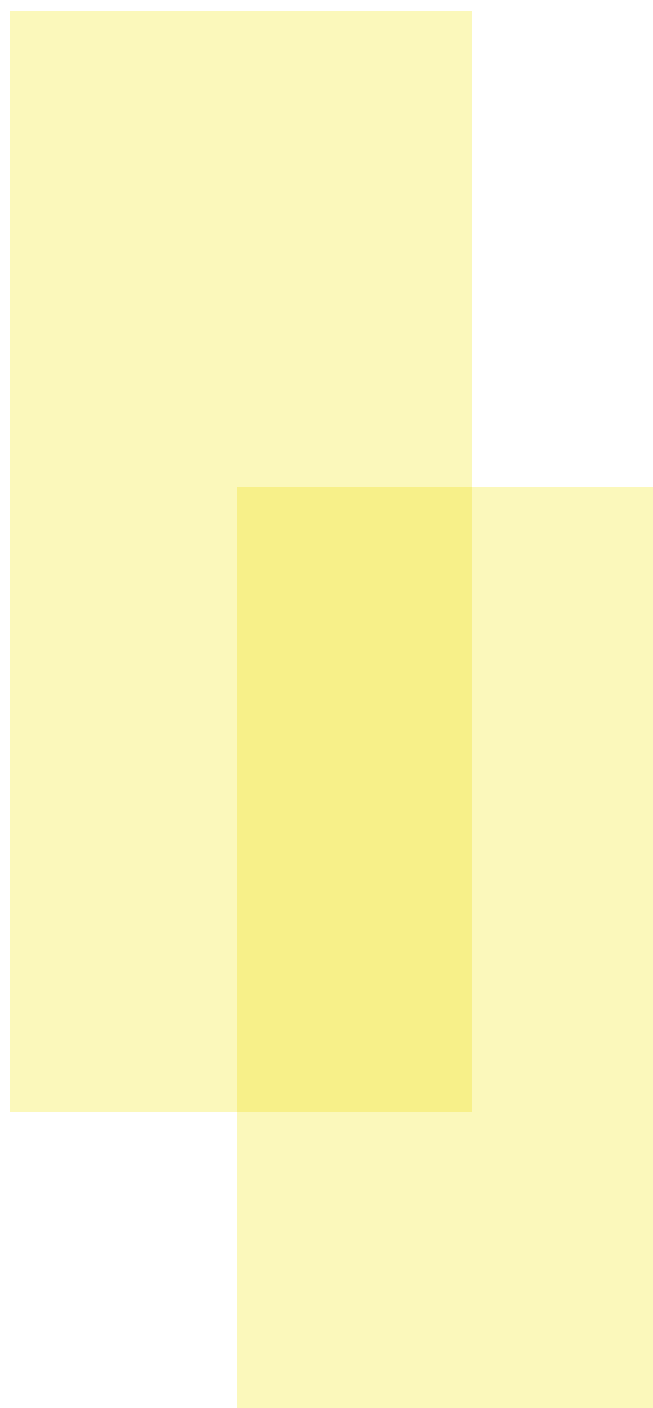
### **Allowing Participation of Pension Funds, Mutual Funds and Portfolio Managers:**

Mutual funds and other financial institutions are the major liquidity contributors for commodity derivatives globally and hence permitting their participation in Indian commodity derivatives may help in increasing their depth. Intermediation by the pension funds and various other institutional players will provide for products which are simple to invest compared with other compliance obligations that come along with a commodity derivative contract.

### **Trade in Commodity Index-based Products:**

Trading in commodity index based products are not allowed in India so far. As discussed in the earlier sections, global experiences suggests that investments in commodities are largely concentrated in index-based instruments or products. Investing in commodity index gives a broad-based approach, as it captures the aggregate performance of the commodities within the index and results in simplified participation, better returns, low costs and more product choices for investors.

Thus when participation of key institutions that intermediate national savings are allowed to invest in Indian commodity derivative markets, commodities have the potential to become investible asset classes. Financial instruments such as futures and options and other OTC instruments such as swaps on commodities will become key investment targets for the investors in Indian commodity derivative markets.



# The Head & Tail of Side Letters in Alternative Investment Funds

Biharilal Deora - Director, Abakkus Asset Manager LLP

Sohini Mondal - Associate Partner, NovoJuris Legal

*A side letter is a document or a letter that is ancillary to another existing contract. In investment world, side letter would mean something over and above your general terms and conditions that are binding under the investment product agreement i.e. PMS or AIF or any other investment vehicle.*

Executing side letters with contributors has become an increasing phenomenon in the Alternative Investment Fund (AIF) documentation space. While the genesis of the practice seems to have stemmed from the need to have supplementary, clarificatory terms and sometimes preferential rights to large or strategic investors in a fund, the modality is now being used at a much higher frequency. The general dicta of avoiding side letters, however, prevail for various reasons of maintaining fairness, integrity and transparency, concerns around legality and enforceability. In this article we have explored the enforceability and regulatory nuances around the usage of side letters.

## **Enforceability of Side Letters in General.**

• From a contractual perspective, side letters could be said to be enforceable if they fulfil the basic tenets of a valid and binding contract under the Indian Contract Act, 1872, i.e. offer and acceptance, made by the free consent of the parties, for a lawful consideration with a lawful object, and not expressly declared to be void.

• Enforceability could also flow from equity and relief under Chapter II of the Specific Relief Act, 1963. However, in a fund context that is structured as a trust, Section 11 of the Specific Relief Act, 1963 also comes into play that specifies that a contract made by a trustee in excess of his powers or in breach of trust cannot be specifically enforced. [Note: Enabling provisions in the indenture of trust need to be drafted carefully, as such.]

• The principle of law as stated in **Von Hatzfeldt – Wildenburg v. Alexander** is that: *"... if the documents or letters relied on as constituting a contract contemplate the execution of a further contract between the parties, it is a question of construction whether the execution of the further contract is a condition or term of the bargain or whether it is a mere expression of the desire of the parties as to the manner in which the transaction already agreed to will in fact go through... In the latter case there is a binding contract ..."*

<sup>1</sup> Section 10 of the Indian Contract Act, 1872

<sup>2</sup> As quoted by the Hon'ble Supreme Court in *Kollipara Sriramulu v. T. Ashwathanarayana & Ors.* – 1968 SCR (3) 387



In the private equity/venture capital investment space, we often see side letters being sought for by seed stage or early stage institutional investors for grant of preferential or superior rights that provide better protection against future dilution of their existing voting or other rights in investee companies.

However, from an AIF documentation perspective, let us now look into the regulatory regime under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012 ("AIF Regulations").

“

*Securities and Exchange Board of India (SEBI), has further stressed upon the duty of all managers to carry out all the activities of the AIF in accordance with the placement memorandum circulated to all unit holders*

### *Side Letters in AIFs – SEBI Perspective.*



Chapter III and Chapter IV of the AIF Regulations talk about investment conditions and restrictions and general obligations and responsibilities of a sponsor or an investment manager, respectively. The relevant provisions put a lot of focus on adherence to placement memorandum terms, material changes only through consent of two-thirds of unitholders by value, the sponsor and manager acting in fiduciary capacity towards all investors. Through its Circular No. CIR/IMD/DF/7/2015 dated 1 October 2015 ("Circular"), the Securities and Exchange Board of India (SEBI), has further stressed upon the duty of all managers to carry out all the activities of the AIF in accordance with the placement memorandum circulated to all unit holders; and also, to act in the interest of unitholders and not take any action which is prejudicial to the interest of the unitholders. However, in the same Circular, AIF, manager, trustee and sponsor have also been mandated to exercise due diligence and independent professional judgment for the conduct of the business.







A constructive (or aggressive) interpretation of the AIF Regulations and the Circular could lead to the understanding that fund managers may exercise prudence and independent professional judgment for entering (if willing to take risk) into side letters, however, acting throughout in the interest of all unitholders and maintain highest standards of integrity and fairness and under an enabling provision captured in this respect in the placement memorandum.

Therefore, the question that arises here is whether offering a preferential or special right to an investor through a side letter, affects the fiduciary responsibility of the sponsor or the manager towards the other investors. There seems to be 2 schools of thought here. One stressing upon the highest level of transparency and adherence to principles of avoidance of conflict of interest. The other thought, however, comes from the practical perspective of having to raise funds by the investment managers. Providing certain special rights which of course do not materially change the commercial terms of the applicable class of units, investment strategy, investment purpose and investment methodology of a fund, could sometimes be crucial for sealing the deal with a large or strategic investor. Side letters are also useful for providing contractual clarifications to even investors who want to join in late. The most frequent requests from the investors in this regard vary from limitations on time horizon and capping of indemnity and contributor giveback amounts to waiver of certain charges or fees, etc.

One should remember that investment manager, holding a fiduciary role, merely has delegated powers from the trustee on the back of investment management agreement and typically can't enter into contracts on the side-lines with investors without consent of the trustee or overriding/relaxing the main contract which the trustee has with investors. This could be construed as breach of trust and fiduciary duty depending on case circumstances and investment manager would need to indemnify the investors for any potential loss. Large number of side letters would also add to the administrative and legal burden on the fund/investment manager.

From an investor's perspective, one should be careful on the enforceability, permissibility and workability of such letters and if they add any substantial value to the overall value proposition on manager selection vs. product selection.

From a Wealth Manager or Investment Advisor perspective, presence of side letters in their approved products might be construed as a red flag in due diligence process as limiting the transparency and fairness in treatment for their own investors.


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# 40 UNDER FORTY 2019

ALTERNATIVE INVESTMENT  
PROFESSIONALS IN INDIA

Presented by



The second edition of the prestigious **"40 Under 40" campaign** aimed to reveal some of the standout talent in the Indian alternative investments industry across different verticals like fund management, advisory, operations, compliance, consulting, technology, marketing, product design and fund raising.

This campaign is being presented by Edelweiss Asset Services

The inaugural edition of the "40 under 40" (2018) campaign was a huge success with more than 180 nominations received during the campaign.

*The nominees were considered by jury based on the following criteria:*

**Accomplishment** (Success in profession)

**Contribution** (Promotion of the profession, financial literacy, pro-bono work, etc.)

**Leadership** (Within a company, The industry, etc.)

**Promise** (Passion, Enthusiasm, Ideas, etc.)

## Jury Members



**Nishith Desai**  
Founder and Managing Partner  
Nishith Desai Associates



**Siddharth Shah**  
Partner  
Khaitan & Co.



**Aditya Gadge**  
Founder & CEO  
AIWMI



**M. Thenmozhi**  
Director  
NISM



**Nitin Jain**  
CEO - Global Wealth & Asset  
Management, Edelweiss

# Selection Process - Methodology

The research process was 3-fold:

- 1) Designing the selection process in consultation with the Jury
- 2) Inviting nominations on <https://alternativeinvestmentsummit.in/>
- 3) Promoting this campaign through print and digital media.

This helped us arrive at a list of over 140 nominations. The next step was narrowing this number down to 80 names who were more likely to make it to the top 40. The initial screening was done by AIWMI's knowledge management team which shortlisted the 80 finalists. The last stage was the Jury Meeting to decide on the final 40. The meeting witnessed a very engaging discussion by the Jury Members on its way to the top 40. For selection, we have only considered those who were under the age of 40 as on May 1, 2019.





# *Our Champions*



**40 UNDER FORTY** 2019  
ALTERNATIVE INVESTMENT  
PROFESSIONALS IN INDIA

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## JURY MESSAGE



**Aditya Gadge**

*Founder & CEO*

*AIWMI*

It is that time of the year again when we bring to you our list of the outstanding young minds from the world of alternative investments in India. AIWMI's 40 Under 40 list identifies the best and the brightest stake holders of the alternate assets sector. The 2019 list is very dynamic and includes people from a range of products & services. Our top 40 these year are people who have built something different or are doing things differently.

Second year in a row we have come across 150+ profiles and its heartening to see such rich and widely spread-out talent pool.

Heartiest Congratulations to all the Winners and thank you everyone for being a part of this important initiative. The phenomenal response to this campaign makes us at AIWMI more committed to our efforts towards enhancing professionals standards in the Indian alternative investments sector.

**Dr. (Mrs.) M. Thenmozhi**

*Director*

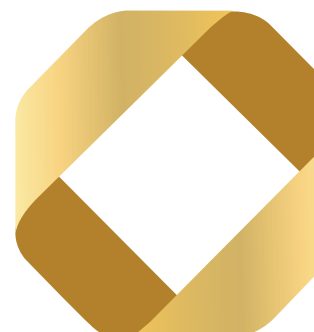
*NISM*

Alternative Investment industry is an important component of the global financial markets. Investors around the globe are diversifying their portfolio through active investments in alternative options.

Alternative Investment industry has started gaining momentum in India in the last few years. Indian capital market regulator, Securities and Exchange Board of India (SEBI), has also put in place a regulatory framework to nurture the growing industry. The efforts taken by AIWMI in promoting the alternative investment fund (AIF) Industry in India have been commendable.

The AIWMI's '40-under 40' initiative provided a platform to the young talent for showcasing their achievements and vision in the alternative investment space. The profile of the participants was very rich, impressive and diverse.

I wish AIWMI the very best in their endeavor towards building expertise and workforce in the AIF Sector. AIWMI's efforts will eventually bring in thought leadership in the AIF sector which will foster sound growth and development in the area.



## JURY MESSAGE

### Nishith Desai

*Founder and Managing Partner*

*Nishith Desai Associates*

It was wonderful to go through the whole process of judging the nominees who are the future of the Indian alternative investments industry. Congratulations AIWMI & Edelweiss! You have done a great job for the alternative industry as a whole.

I am very happy to see the amazing talent pool available in the Indian alternative investments industry today. It's not an easy task to identify 40 out of 140+ applicants but it's a good problem to have for the industry as a whole. This is a recognition for those who have shown leadership, who have contributed to the industry and have demonstrated some ability to change the world for better in this particular space and at the same time to encourage other people to come forward.

Those who have not won the competition does not mean they were not deserving candidate. They were possibly but I think articulation was somewhere failing or they did not position themselves well. I believe each nominee has the ability to move forward. I would recommend all the young stakeholders of the industry to come in a big way, participate and encourage this whole ecosystem of recognizing & acknowledging the talent pool that is coming up in the alternative investments space in India. India can perhaps create the best asset management industry in the world. I think we can do much better and so much more on a global stage.



### Nitin Jain

*CEO - Global Wealth & Asset Management  
Edelweiss*

Today, in the Indian asset management industry, alternatives is one of the most exciting places to be in, thanks to the exponential growth in the alternatives space in the last 4 to 5 years which has been fuelled by a lot of evangelism, innovation, investor education and hand holding. I must also specifically acknowledge efforts of industry bodies like AIWMI, who have played a critical role in making this happen.

Edelweiss has been a pioneer in the alternatives space and we have always recognized and encouraged young talent by providing them with leadership opportunities and helping them to evolve to the best of their abilities. In line with this philosophy, we partnered with AIWMI for second year in a row to look out for 40 alternative investment professionals under 40 years who will become the future leaders of this exciting industry.

## JURY MESSAGE

Talking about this year's nominations, funnelling out these 40 winners from a wide array of distinguished and deserving young leaders in the ecosystem, was truly an exhilarating experience. After a lot of deliberations, we finally arrived at the winners; but I truly believe that contributions by each one of the nominees have been remarkable and they have really done some inspiring work.

I heartily congratulate the 40 winners and all other nominees and wish each one the very best for their future endeavours!

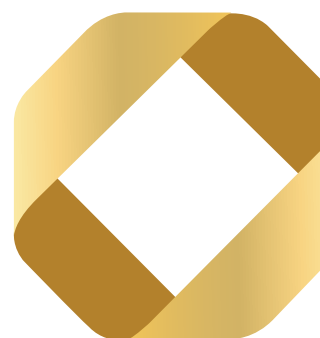
### **Siddharth Shah**

*Partner*

*Khaitan & Co.*

Thank You AIWMI & Edelweiss for inviting me on the jury for 40 under 40- 2019 campaign. It's been an absolute privilege and a pleasure to be a part of this. It's also kind of very satisfying to see how an industry which not too long ago had a very handful of professional you could count on has grown to the age where we are actually filtering out talent to recognize the 40 under 40 professional in this space. Considering the response that this platform has been receiving year on year, I think it's a great achievement and something that I think not only AIWMI & Edelweiss but as an industry we all should feel proud of.

It was process which was pretty well laid out and there was very engaging discussion between the jury members. I think I am pretty happy with the outcome in terms of what we have achieved. I think this is one award which every participant in the alternative investment industry should be participating in. I have no doubt this campaign will only grow in its stature year on year & I think I would encourage more and more professionals to be a part of this exciting domain of alternative investments. My congratulations to all the winners.



“

## THE SCIENCE OF GETTING RICH



### **Success Mantra**

Never give up. Keep at it

### **Inspiration**

Stephen Schwarzman, Founder, BlackStone

### **Pillars of strength**

Family, Friends, Team

### **Hobbies & Interests**

Driving, Squash

### **Career Goal**

To be a successful fund manager

### **Role model in Indian alternative Investments sector**

Gopal Jain, Founder, Gaja Capital

### **The causes you are supporting**

Education for girls and needy

### **5 members dream team in the alternative investments space**

Difficult to fathom

### **Mentor**

Gopal Jain, Founder, Gaja Capital

### **Biggest Career Misstep**

Nothing comes to mind!!

### **And Lessons learnt**

Don't follow the herd!!

### **What next?**

Next fund raise...



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## THE INTELLIGENT INVESTOR



### Success Mantra

Passion, sincerity, integrity and 'never stop learning' attitude

### Inspiration

Entrepreneurs who work hard to create value for all stakeholders

### Pillars of strength

My pillars of strength are my family who have supported me at all times - my parents, my wife, daughter and my brother's family

### Hobbies & Interests

Playing squash, reading books and listening to music

### Career Goal

Continue to partner with high quality entrepreneurs to build successful businesses of tomorrow – businesses which have strong competitive moat, are sustainable, efficient in resource utilization and that provide goods and services consistent with the kind of society we want to live in—companies that end up on the right side of history

### Role model in Indian alternative Investments sector

Ashish Dhawan, who has been synonymous with the evolution of private equity industry in India and has demonstrated ability to adopt new trends and unique investment strategies. He created an institution which could outlive him, allowing him to give back to society through his focus on education

### The causes you are supporting

Girl child education and providing healthy food to under-privileged children

### 5 members dream team in the alternative investments space

1. Peter Lynch
2. Warren Buffet
3. Charlie Munger
4. Howard Marks
5. Ashish Dhawan

### Mentor

I wouldn't say I have one mentor - blessed to have people around me who have helped me navigate my life better including my parents, family, teachers, ex and current supervisors and some dear friends

### Biggest Career Misstep

Nothing that can be called as "career misstep". Each phase of my career has provided me with immense learning opportunity

### And Lessons learnt

Quickly identify mistakes and take corrective action

### What next?

1. Continue to learn. I strongly believe in - "Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day."
2. Become a better investor and partner for entrepreneurs and a better human for society at large



Presented by





## WHAT THE EYES DONT SEE



### Success Mantra

A thing is worth doing only if you can do it well. If you cannot do it well, do not do it at all

### Inspiration

My father

### Pillars of strength

My parents, wife and daughter

### Hobbies & Interests

Travel, scuba diving, motorcycling and books

### Career Goal

To be in a position to actively shape policy for the industry, resulting from a practice that is comprised of a team that is acknowledged as the best in class

### Role model in Indian alternative Investments sector

MK Sinha and Zia Mody

### The causes you are supporting

Girl child education and environmental protection

### 5 members dream team in the alternative investments space

1. Rashesh Shah
2. MK Sinha
3. Renuka Ramnath
4. Gautam Mehra
5. Zia Mody

### Mentor

I have been fortunate enough to have had mentors through various stages of my career. The most profound impact has been from Ed Harris, Michael Halford, Ashwath Rau and Ganesh Rao

### Biggest Career Misstep

I do not think of any result as a misstep. Even if you feel things are down, this can be a learning opportunity. In any such situation you can either stay down or you can rise up from it being better than you were going into that situation.

### And Lessons learnt

Everyone learns from their own mistakes - the trick is to learn from others' mistakes. It is important to observe.

### What next?

Grow, and enjoy the process



Presented by





## “ VALUE INVESTING



### **Success Mantra**

Choose your battles wisely & fight them untiringly!

### **Inspiration**

Warren Buffet & Howard Marks

### **Pillars of strength**

Women in my life....My Mother & Wife.

### **Hobbies & Interests**

Travelling & Football

### **Career Goal**

To be one of the most revered stressed asset investor in the world

### **Role model in Indian alternative Investments sector**

Kunal Shroff

### **The causes you are supporting**

Education

### **5 members dream team in the alternative investments space**

1. Howard Marks
2. Kunal Shroff
3. Renuka Ramnath
4. Puneet Bhatia
5. Rajan Anandan

### **Mentor**

Venkat Ramaswamy – someone whom I look upto both personally & professionally!

### **Biggest Career Misstep**

Joining a large technology consulting firm fresh out of CA Campus without understanding my role and responsibilities expected from me

### **And Lessons learnt**

Big brand name does not necessarily mean big career success...clarity on your role & your passion does!

### **What next?**

\$10 billion fund



Presented by



“

## COMPLETE THE FUTURE



### **Success Mantra**

Optimism and Hard Work

### **Inspiration**

All Indian entrepreneurs who achieve a lot despite limited resources.

### **Pillars of strength**

Family

### **Hobbies & Interests**

Theatre, Movies and Music

### **Career Goal**

To build 2Point2 Capital into a respected and leading asset management company

### **Role model in Indian alternative Investments sector**

WestBridge Capital

### **The causes you are supporting**

Primary education through <http://www.divaswapna.org/>

### **5 members dream team in the alternative investments space**

1. Ashish Gupta
2. Ashish Dhawan
3. Sumir Chadha
4. Sandeep Farias
5. Subrata Mitra

### **Mentor**

Not possible to single out just one as I have benefitted from the guidance of several teachers throughout my

### **Biggest Career Misstep**

Working as a software developer

### **And Lessons learnt**

Not all computer science engineers are fit to code

### **What next?**

To keep learning and rising



Presented by



## “ YOUR MONEY YOUR LIFE



### Success Mantra

Stand by your convictions. The world will come around.

### Inspiration

Warren Buffet – not because he has made all the money – but because of the clarity on what he can do and more importantly what he CANNOT do

### Pillars of strength

My Wife – Helps me survive the roller coaster ride that you go through in the life cycle of a PE fund

### Hobbies & Interests

Traveling & Photography – Helps me open up my mind and teaches me that there is always another perspective

### Career Goal

I am a firm believer that over the next decade India will have an independent Alternative Asset Management Co with over 1 Lakh Crore of Assets Under Management which will provide investor solutions across the entire spectrum of senior debt, subordinate debt, high yield debt, listed equity, venture capital, private equity and real estate. My goal is to create that platform.

### Role model in Indian alternative Investments sector

Renuka Ramnath – Her willingness to take risks, back entrepreneurs and to have a flexible approach to deal making has delivered returns for investors across cycles. She was also among the first set of fund managers who moved out from a captive fund to setup independent shops and serves as a role model for me to go for my own personal ambition of creating India's largest Alternative Asset Management platform.

### The causes you are supporting

Education for underprivileged and participation of educated youth in democracy.

### 5 members dream team in the alternative investments space

1. Renuka Ramnath – For her flexible style and risk taking ability
2. Hari Buggana – For his expertise in Pharma/Lifesciences
3. Narendra Ostwal – For Financial Services
4. Parag Jhawar – For listed equities
5. Of course me !!

### Mentor

Prashasta Seth – He has been kind enough to spare several hours talking to me and helping me clear my thought process about my career and goals

### Biggest Career Misstep

Move to corporate finance side of business in early days of career

### And Lessons learnt

One must know what he CANNOT do!!

### What next?

Work towards creating an independent Alternative Asset Management Co with over 1 Lakh Crore of Assets Under Management which will provide investor solutions across the entire spectrum of senior debt, subordinate debt, high yield debt, listed equity, venture capital, private equity and real estate



“

## THE LEADER IN YOU



### Success Mantra

Focus on the present, build consensus to solve problems,  
team trumps individual stardom

### Inspiration

My Seniors (for experience) freshers (for enthusiasm and openness to learn)

### Pillars of strength

My Family

### Hobbies & Interests

Singing, Driving, Debates

### Career Goal

To be remembered for my products, processes & contributions at  
current and past organizations

### Role model in Indian alternative Investments sector

Mr. Shahzad Madon

### The causes you are supporting

Active contributor to with various NGO's working  
with orphaned children and helping the families of Martyrs

### 5 members dream team in the alternative investments space

1. Shahzad Madon
2. Santosh Kamath
3. Andrew Holland
4. Sunil Singhania
5. Aashish Sommaiya

### Mentor

Mr Jasraj Thakur

### Biggest Career Misstep

Not encountered yet

### And Lessons learnt

Financial markets always surprise you

### What next?

Bigger and Better



Presented by





## THE PRIMAL LEADERSHIP



### Success Mantra

Understand size of wallet before targeting share of wallet, Client centricity, Bespoke investment solutioning and long term relationship. Focus on being a “High Octane Global Professional”

### Inspiration

Warren Buffet, Charlie Munger & Joel Greenblatt

### Pillars of strength

My wife Pinky, my daughter Akshara, my parents, relationship, honesty .

### Hobbies & Interests

Photography, Travelling, Investor awareness workshops. The best thing that happened to me in my career is that more often than not all of the three happen together.

### Career Goal

To be the CEO of one of the state of the art alternative asset management firm with focus on :

Low cost, technology efficient, investment basket across asset classes, risk adjusted returns

### Role model in Indian alternative Investments sector

Mr.Karan Bhagat - IIFL - One of the most flamboyant professionals from the industry

### The causes you are supporting

1. Women equality in domestic life. Have been practicing this at home all my life and would some day be able to motivate others to follow this
2. Providing a investment environment for investors that's insulated from frauds
3. Presenting India as an investment destination across the globe

### 5 members dream team in the alternative investments space

While there can be aspirational dream teams for may that can contain the global investment gurus, I believe in having a realistic and India centric dream team in place. My dream team would consist of

1. Neeraj Choksey & Mr.Jignesh Desai (Vision)
2. Nishit Desai(Guidance& Legal, Structuring)
3. Andrew Holland(Investment evangelist)
4. Radhika Gupta(Sales and go to market strategy)
5. Anand Varadarajan(Marketing, Go to market and execution)

### Mentor

1. Mr.Ravikumar Namburi & Mr.Keerthi Kanth, Mr.Neeraj Choksi & Mr.Jignesh Desai (my colleagues)
2. Mr.V M Varadarajan(My father)

### Biggest Career Misstep

This was first up when I started working wherein I wanted to go with the flow and become an IT professional but I eventually realised

### And Lessons learnt

Every mistake we make is a new lesson learned. Don't sit back and crib, get corrective action in place and move on.

### What next?

I've been fortunate to be a part of an enterprise that's arguably the largest financial advisor network. As the Head of Alternative and Global investments, my ambition is to make ourselves the largest player in the Alternative investments space in India and also intend to take our business Global in a big way. My dream is to see ourselves set up in New York City and be seen as an Indian enterprise setting global standards for others to follow.





## “ MASTERING THE MARKET SCIENCE



### **Success Mantra**

Follow your passion

### **Inspiration**

Elon Musk

### **Pillars of strength**

My family

### **Hobbies & Interests**

Poker, football, squash

### **Career Goal**

Build a world class institutional grade alternatives investment management firm

### **Role model in Indian alternative Investments sector**

Karan Bhagat

### **The causes you are supporting**

Education for underprivileged children, treatment for cancer patients

### **5 members dream team in the alternative investments space**

1. S. Naganath
2. Anuj Puri
3. Sandeep Singhal
4. Karan Bhagat
5. Myself (it is a dream team after all!)

### **Mentor**

Shailesh Haribhakti

### **Biggest Career Misstep**

Not investing enough in the business to scale it up

### **And Lessons learnt**

A business plan has to meet ground realities

### **What next?**

Raise USD 1 billion in Greenland Investment Management's second global arbitrage fund



Presented by





## ASSET DEDICATION



### Success Mantra

Everything that happens, happens for the good

### Inspiration

I get inspired by people with positive attitude from all walks of life. Its like the Chi which drives me forward

### Pillars of strength

My family has always been my biggest pillar of strength. By showing confidence in all my decisions taken, they have eventually helped me to grow as a person which I am today

### Hobbies & Interests

Mingling with people having diverse interests from different walks of life. My association with Mensa group makes this easier for me. Am an avid traveler and reader of business articles

### Career Goal

Make a credible name in the Indian Investment industry and harness that strength to increase the investment culture in the country from its current low penetration into financial assets

### Role model in Indian alternative Investments sector

The dynamic thought leaders at IIFL Investment Managers with whom have had the pleasure of working over the last several years. Identifying an opportunity to add value for the investors and then going all out to building it, is what I have learnt from them

### The causes you are supporting

Entrepreneurship. I am mentoring few budding first-generation business founders. They are going to be the biggest job creators for the future

### 5 members dream team in the alternative investments space

My dream team would be comprising of people who can add value collectively and bring out the best from the team:

1. Ray Dalio – for his ability to identify the cycles of the economy and for using machine learning tools
2. John Bogle – for creating simple products that cater to the masses
3. Peter Lynch – for his ability in identifying businesses before the market catches up on it

### Mentor

No specific name that I would want to single out but have been influenced by and taken some learnings from many people professionally and personally in my journey of life so far

### Biggest Career Misstep

Have no regrets with anything that my career has taken me to where I am now

### And Lessons learnt

I would rather put it as lessons learnt from the market – “Market is supreme and respect it. Measure risk and reward and then look for the best pay-offs”

### What next?

Take IIFL AMC to higher echelons in the Indian Asset Management industry and continue to offer the differentiated products to the investors



Presented by





## FINANCIAL SHENANIGANS



### Success Mantra

I'll put 2 of them: i) You maybe most knowledgeable but, it's in vain if you can't sell yourself. ii) Zoom out everything. Never lose the big picture! This trait is mostly realized later in the career, but fast track leaders do this yo

### Inspiration

My mother; for her selflessness (living Karma!)

### Pillars of strength

i) Family ii) Health and iii) Gratitude. I am a strong believer that a fulfilling health, sorted personal life and a gratitude of all you've achieved plays a big role in achieving excellence. You just can't decouple them!

### Hobbies & Interests

Travelling and Cricket!

### Career Goal

Jack of all, master of none! If you are too good at something, people will never let you move out of it. To be a great leader I believe it's imperative to explore multiple corporate functions and not stuck with specializing.

### Role model in Indian alternative Investments sector

Sunil Singhanian

### The causes you are supporting

Education, livelihood and environment. I work with agencies like iVolunteer, Ketto and Milaap.

### 5 members dream team in the alternative investments space

1. Sunil Singhanian (Abakkus)
2. Andrew Holland (Avendus)
3. Ronnie Screwalla (Entrepreneur)
4. Rashesh Shah (Edelweiss)
5. Myself (you need a junior guy for all the execution tasks)!

### Mentor

All my bosses! I observed them the closest for all the good and not so good way of dealing stuff!

### Biggest Career Misstep

I mistimed my entrepreneurship move clearly (lasted for 1.5 yrs before I took a stop loss). I was less than prepared and was chasing a glory instead of core substance

### And Lessons learnt

To focus less on process and more on output

### What next?

That's exactly what I am thinking ! On a serious note, I'd keep exploring and experimenting on professional front. Just need to be aware at every moment and not be trapped in a monologue



Presented by





## THE ALCHEMY OF FINANCE



### Success Mantra

Hard Work + Focus + Right intent + Blessings = Success

### Inspiration

Life throws up challenges at different stages but every such individual who does not get vulnerable to the unfavorable situation and keeps on finding ways to beat the challenge and fight right up to success is an inspiration.

### Pillars of strength

My wife, my sister and few close friends from engineering days

### Hobbies & Interests

Listening to old Bollywood music

### Career Goal

1. Play a leadership role in creating difference to my surroundings in a meaningful and ethical way;
2. To have enabled growth of those who have worked with me during my career

### Role model in Indian alternative Investments sector

Kenneth Andrade - for his modest attitude and astuteness in reading overall market environment.

### The causes you are supporting

Education for underprivileged children

### 5 members dream team in the alternative investments space

Lot of renowned names; difficult to name a select few

### Mentor

My father, Shri Pradeep Kumar Maheshwari

### Biggest Career Misstep

I don't think any of the phases of my career have been missteps, each one has helped me learn and has been instrumental in helping me groom to whatever has come after that.

### And Lessons learnt

Take up roles where you can leverage your core strengths & never stop learning

### What next?

Work towards creating a large & successful organization, which is highly respected. The word 'respect' has highest importance here



Presented by





## STRENGTHS FINDER



### Success Mantra

"उत्तिष्ठत जाग्रत प्राप्य वरान्निबोधत।" अर्थात् उठो, जागो, और ध्येय की प्राप्ति तक रूको मत।  
by Swami Vivekananda

### Inspiration

My Parents. My Dad Tirthraj Dave is a practicing Lawyer for last 46 years and my mother is a Business woman for last 35 years

### Pillars of strength

My team, family

### Hobbies & Interests

Playing Table Tennis, Yoga, meditation, pranic healing and reading

### Career Goal

To build the largest Wealth Advisory & Investment Banking practice in the world

### Role model in Indian alternative Investments sector

Nikhil Vora of Sixth Sense, Rajesh Singhal of IndGrowth Advisors

### The causes you are supporting

Friends of Tribal, Round Table India, National Association of the Blind

### 5 members dream team in the alternative investments space

1. Brijesh Thakkar
2. Kush Mohnot
3. Vipul Desai
4. Mayank Jain
5. Shridhar Sawant

### Mentor

My Father in law Mr. AS Mohanty. He has been the CEO of a 20,000 cr pharma company and has built businesses from scratch

### Biggest Career Misstep

initially I worked for a listed client without a written mandate

### And Lessons learnt

Resolved to never work till proper documentation is in complete

### What next?

Planning to raise a USD \$100 million fund for Equity Investments in both listed and unlisted space



Presented by







## POINT MADE



### Success Mantra

Deliberate but decide. Take measured risks because not taking risk is also a big risk

### Inspiration

Sardar Vallabhbhai Patel

### Pillars of strength

Family

### Hobbies & Interests

Reading biographies, travelling to heritage sites, music

### Career Goal

To contribute to making Blume as One of the most credible early stage institution and to see Constellation as the most valued partner by all constituents of early stage ecosystem

### Role model in Indian alternative Investments sector

Karthik Reddy

### The causes you are supporting

Listing of Startups & Education

### Mentor

Late Mr. Narayan Varma and Ms. Savitri Kulkarni

### Biggest Career Misstep

In my early days, I left a job with loads of work satisfaction and some great people who I worked with for much better higher money and pride of working in a globally renowned institution. That hasn't hurt me because I got a chance to correct that mistake soon

### What next?

Drive the Brand BLUME upward and forward. Make India a startup nation



Presented by



“

## BORN FOR THIS



### Success Mantra

Your task is not to seek for success but merely to seek and find all the barriers within yourself that you have built against it and remove them one by one

### Inspiration

My parents and family

### Pillars of strength

My wife Anshu and My kids Yatharth and Shrishti

### Hobbies & Interests

Reading books and Networking with people

### Career Goal

To start my own Asset management firm

### Role model in Indian alternative Investments sector

Sunil Singhania and Ashish Dhawan

### The causes you are supporting

Working as a volunteer with CFA Society India and CFA Institute to promote highest ethical standards & professional excellence and supporting people to identify their hidden potential

### 5 members dream team in the alternative investments space

1. Howard Marks (OakTree)
2. David Swenson (Yale)
3. Sunil Singhania (Abakkus)
4. Arjun Devecha (GMO)
5. Rick Slocum (Harvard)

### Mentor

Navneet Munot

### Biggest Career Misstep

None so far

### And Lessons learnt

The most important asset in your life is your network and your skill sets. Invest in both. Learn or Die

### What next?

Expect the asset management industry to move towards owner-manager model vs. concentrated right now. AIF's will be the new vehicle for successful managers to remain passionate about investing



Presented by





## FOUNDERS AT WORK



### Success Mantra

Creativity in ideas and meticulousness in execution

### Inspiration

Abigail Johnson, Uday Kotak and Swapnil Pawar

### Pillars of strength

My husband and best friend - Swapnil Pawar and my mother - Richa Moodgal

### Hobbies & Interests

Poetry and writing - have published a collection of poems written by me called "Amidst the Shadows". Have also written articles for magazines such as Femina.

Travel - have travelled over 35 countries and have a desire to explore all countries in the world, if possible

### Career Goal

To build a world class institution in financial services

### Role model in Indian alternative Investments sector

Not just alternatives but in overall investments sector I admire Edelweiss and Indiainfoline and how they have become world class institutions while being started by seniors from IIM Ahmedabad. For showing that leadership from the front, I really look up to Mr Rashesh Shah and Mr Nirmal Jain and hope to follow in their footsteps.

### The causes you are supporting

Education of underprivileged kids and gender equality.

### 5 members dream team in the alternative investments space

1. Ray Dalio (Hedge fund)
2. Stephen Schwarzman (Private equity)
3. Renuka Ramnath (Venture Capital)
4. Mohamed El-Erian (Macro and Fixed Income)
5. Bruce Flatt (Real Estate)

### Mentor

My business partner and close friend A. Rajagopal

### Biggest Career Misstep

Taking on a role not completed suited to my strengths.

### And Lessons learnt

Reinventing myself and learning how to perform even when the environment is not always conducive.

### What next?

Hiring the right people for right roles and empowering and inspiring them to perform their best



Presented by





## THE LAW MACHINE



### Success Mantra

Smart work is the key to success

### Inspiration

Values from my father and perfectionism from my mentor

### Pillars of strength

My family and close friends, who've always been besides me through thick and thin

### Hobbies & Interests

Sports, travel and cooking over the weekend

### Career Goal

Revolutionizing the alternative investment industry in India, by working towards creating a world class ecosystem in India for global asset managers

### Role model in Indian alternative Investments sector

Mr Azim Premji- Starting as a family office to becoming one of the largest asset allocators in the country

### The causes you are supporting

Primary Education for underprivileged children: To solve some of the root causes of our society, I believe that good primary education is of essential importance. I am supporting various NGOs and individuals working towards education and social upliftment of kids from the weaker strata of our society

Reducing our carbon footprint: Living in a developing country with the highest concentration of polluted cities in the world, I strongly believe it is our obligation to leave a breathable livable planet for our successors

### 5 members dream team in the alternative investments space

1. Azim Premji
2. Rakesh Jhunjhunwala
3. Ramdeo Agarwal
4. Prem Watsa
5. Sumir Chadha

### Mentor

Mr Siddharth Shah

### Biggest Career Misstep

Limiting my risk appetite. I have always been very conservative in my approach towards things

### And Lessons learnt

Playing safe is very risky!

### What next?

Building a strong team of inspired professionals, exploring uncharted territories, creating new and innovative products, and yes, getting 6 pack abs!



Presented by





## MASTERING CAPITAL GAME



### Success Mantra

I have a clear vision for 2030 for the firm and try to do a little everyday to ensure we get there for our partners

### Inspiration

Daily struggles of common man (especially in India). Compared to their difficult lives I am blessed and it is my privilege to give our partners a good return and overall experience from their hard earned money

### Pillars of strength

Family, education/experience, and living a long-term focused life

### Hobbies & Interests

Workout, running, and playing with niece/nephews

### Career Goal

Over next 12 years to build the most successful (first in terms of outperformance track record and then size) independent Indian equity firm for investors globally

### Role model in Indian alternative Investments sector

Sumeet Nagar, Malabar Capital; Samir Arora, Helios; Akash Prakash, Amansa Capital

### The causes you are supporting

I am big believer in teach a man how to fish vs. providing fish so once sufficient corpus created from our firm I will deploy in this space for maximum impact

### 5 members dream team in the alternative investments space

1. Ajit Dayal
2. Sumeet Nagar
3. Samir Arora
4. Akash Prakash
5. Myself

### Mentor

Previous employer (David Polen of Polen Capital) and the entire Value Investing school of thought

### Biggest Career Misstep

None- I believe in destiny and everything happens for a reason so no

### And Lessons learnt

Too many to mention in a few lines but main being completely, 100% honest with yourself and how you want to spend your life vs societal/family expectations

### What next?

Continue to build on the 2030 journey and have meaningful relationships with selective people globally



Presented by







## CAPITAL IDEAS



### Success Mantra

Hard work, Integrity and Discipline are quintessential pillars of success in any professional journey and these take us a long way

### Inspiration

Warren Buffett (I have been maintaining a personal library of books on Warren Buffett since almost two decades now)

### Pillars of strength

My family, values and principles

### Hobbies & Interests

Reading, travelling, fitness / yoga and music

### Career Goal

- (a) To be recognized as a successful and respected Investment Professional
- (b) To launch / manage an independent alternative fund management platform

### Role model in Indian alternative Investments sector

- 1. Luis Miranda
- 2. Ashish Dhawan (co-incidentally, both have retired)

### The causes you are supporting

Supporting two NGOs focused on kids' health and education

### 5 members dream team in the alternative investments space

- 1. Luis Miranda
- 2. Ashish Dhawan
- 3. Paresh Thakker
- 4. Sudhir Sethi
- 5. Me (so that I can learn from these veterans)

### Mentor

Paresh Thakker has been my professional and personal mentor since last 12 years

### Biggest Career Misstep

Honestly, there have been no career missteps. All dots have connected well when I look back

### And Lessons learnt

Luck is what happens when an opportunity meets preparation at the right time

### What next?

Aim more. Innovate more. Achieve more



Presented by



“

## DARE TO LEAD



### Success Mantra

Success to me is continuous pursuit of excellence through adapting and evolving oneself

### Inspiration

Steve Jobs and his mantra “Have the courage to follow your heart and intuition. They somehow truly know what you truly want to become. Everything else is secondary.”

### Pillars of strength

Supportive and understanding family

### Hobbies & Interests

Travelling, understanding new cultures & reading

### Career Goal

To set up one of the most successful real estate investment and asset management business through consistently delivering superior risk adjusted returns

### Role model in Indian alternative Investments sector

Ashish Dhawan of Chrys Capital

### The causes you are supporting

Education for underprivileged

### 5 members dream team in the alternative investments space

1. Ray Dalio
2. Charlie Munger
3. Michael Burry
4. Bill Conway
5. Daniel Kahneman

### Mentor

I have had the opportunity to work with few of the best real estate fund managers and each of them have played a significant role in shaping me as an individual and my career

### Biggest Career Misstep

The alternative investment sector requires an ability to understand and price risk. There are instances when the risks do not pan out per the plan. In such cases, the plan of action is to mitigate such risk and drive the maximum outcome. In my mind, these are not misstep, but part of career itself

### And Lessons learnt

Embrace your failures and make them a driver to success. Be consistent and disciplined to your approach and you will meet your goals

### What next?

Ideate, innovate and evolve in the current tech-disruptive environment



Presented by



“

## THE ART OF DEALING WITH PEOPLE



### Success Mantra

Give your best in everything you do

### Inspiration

Sportsmen and women for their dedication and discipline during their preparation as well as their ability to perform under pressure

### Pillars of strength

My family, and my team at Client Associates on whom I can completely depend on to get the job done

### Hobbies & Interests

An avid badminton player and a poker enthusiast. I try to travel as much as possible and enjoy the local culture and history of those places

### Career Goal

Career goals keep evolving, but in the near term I aspire to be considered among the top capital allocators in India

### Role model in Indian alternative Investments sector

1. Himanshu Kohli: For pioneering the client-centric multi-family office approach in India. I admire him for building Client Associates with a razor sharp focus of becoming the best selectors of managers in India, rather than adopting the more lucrative option of becoming product creators
2. Andrew Holland: For being arguably the first to set up a hedge fund in India, and managing to recreate the clientele in second innings as a fund manager at Avendus
3. Karan Bhagat: For gauging client interest for unique alternative ideas, much ahead of the industry

### The causes you are supporting

Education of Girl Child and Animal care

### 5 members dream team in the alternative investments space

1. Charlie Munger
2. Howard Marks
3. Stanley Druckenmiller
4. David Swensen
5. Peter Thiel

### Mentor

I am eternally grateful to my bosses who have influenced me throughout my work life:

Himanshu Kohli, Nilanjan Das, Markus Stierli, Thomas Werder, Kabeh Vaziri

### Biggest Career Misstep

No great missteps, only learnings

### And Lessons learnt

I learnt that for most decisions (be it professional or personal) there will always be 10-15 parameters to optimize on, so it may be best to select 5 key parameters and make a decision, and then every 6-12 months revisit whether the choice of the 5 parameters was correct or not.

Another important lesson I learnt is that while making allocation decisions across strategies for clients, it is important to keep aside personal biases (around managers, strategies or markets)

### What next?

Building Client Associates to be the most respected multi-family office within Asia



Presented by





## CROSSING THE CHASM



### Success Mantra

Aim for the sky and beyond, keep feet on the ground and have belief...it's never too late to do what your heart desires

### Inspiration

My grandfather, my parents and in-laws

### Pillars of strength

My wife and my daughters

### Hobbies & Interests

Travel, Movies, Photography, Writing

### Career Goal

As a professional, lead an asset management company with successful track record across diversified assets, geographies and catering to wide spectrum of investors. As an entrepreneur, start and lead an innovative business focusing on disruptions and stretching the limits while impacting lives meaningfully

### Role model in Indian alternative Investments sector

Mr. Ramdeo Agarwal

### The causes you are supporting

Gender equality, Right to education and health, ESG driven impact investing and other sustainable development goals

### 5 members dream team in the alternative investments space

1. Warren Buffet
2. Peter Theil
3. Rakesh Jhunjhunwala
4. Ramdeo Agarwal
5. Jack Ma

### Mentor

Teachings from Ramayan / Mahabharat

### Biggest Career Misstep

Not taking enough risk (read as 'grabbing opportunity')

### And Lessons learnt

Have big ambitions...there is never a right or a wrong time...think with your brain but decide with your heart...don't be afraid to fail

### What next?

Start on an entrepreneurship journey



Presented by



## “ SMART CHOICES



### Success Mantra

Change is the only constant. Be fearless and follow your heart

### Inspiration

Jeff Bezos

### Pillars of strength

My family

### Hobbies & Interests

I regularly play Table Tennis and am training to participate in the veteran national table tennis championships in few years

### Career Goal

My ultimate objective is to develop ARP Investments as the premier provider of Alternative Risk Premia products globally while continuing to be an investment boutique following a scientific data intensive investment process based on thoughtful proprietary research

### Role model in Indian alternative Investments sector

My role model in the Indian alternative investments sector is Renuka Ramnath who after a very successful career at ICICI Venture, set up Multiples as one of the leading private equity firm in India

### The causes you are supporting

Open cities initiatives: to enable dignified life and quality of living for urban poor while restoring and reinvigorating open spaces in Indian cities

### Mentor

Deepak Gurnani, ARP Investments

### Biggest Career Misstep

Several. Each misstep has been a learning opportunity to reflect and grow

### And Lessons learnt

As an entrepreneur and an investment professional, I am fortunate to learn professional lessons every day in the areas of investing, business development, intellectual capital and human capital.

### What next?

Our immediate target is to cross an AUM of \$1.5 billion for ARP Investments



Presented by







## MARKET WIZARDS



### Success Mantra

Learn, be excited, execute, learn, ... (repeat!)

### Inspiration

Teachings by Werner Erhard, my son

### Pillars of strength

Family

### Hobbies & Interests

Cricket, poker, travelling/exposure to new people/cultures

### Career Goal

Build and lead a multi-strategy alternative investments platform

### Role model in Indian alternative Investments sector

Ashish Dhawan

### The causes you are supporting

Giving back professional learnings to the ecosystem

### 5 members dream team in the alternative investments space

Team at Carpediem is pretty exciting and possess key complementary skillset to succeed. [Five Virat Kohlis on the same team, a no-no]

### Mentor

Arvind Nair

### Biggest Career Misstep

Many smaller ones – each educating who I chose to be in that unique situation

### And Lessons learnt

Follow what you believe in, take risks, be open and listen, and keep evolving - journey has to be exciting

### What next?

Execute on the plans to move towards the career goal



Presented by





## START WITH WHY



### Success Mantra

Think out of box, plan big and work hard to achieve

### Inspiration

N R Narayana Murthy and APJ Abdul Kalam

### Pillars of strength

Family and Friends

### Hobbies & Interests

Running marathons, Long distance motorcycle rides, Reading history and politics

### Career Goal

Creating a world class, all service Multi-Family Office and Advisory Practice

### Role model in Indian alternative Investments sector

Sarath Reddy, Unifi Capital

### The causes you are supporting

Child healthcare, girl child education and polio eradication

### 5 members dream team in the alternative investments space

Every investment professional is unique in their own way and so is their investment style; don't think a dream team will do justice to investors.

### Mentor

Can't say I have one mentor; many individuals throughout my life contributed immensely in shaping my thoughts and upgrading my personality and skills. However, senior IT leader, K. Jayakumar has mentored me over years during my professional journey

### Biggest Career Misstep

I have had my ups and downs; all taught valuable life lessons. Don't think there was any misstep though

### And Lessons learnt

Be humble, keep an open mind, make friends and keep learning

### What next?

Keep doing good work



Presented by





## DREAMCATCHERS



### Success Mantra

Separate the WHAT and the HOW. Always start with WHAT you want to do and WHY you want to do it. The HOW will figure itself out

### Inspiration

Richard Branson and his book "Screw it, let's do it!"

### Pillars of strength

My co-founder and my parents. The former for making me think BIG and the latter for letting me

### Hobbies & Interests

I am a content junkie, so Netflix, Amazon and Torrents. Otherwise, travel & food

### Career Goal

To produce a film in India which makes it to the Oscars

### Role model in Indian alternative Investments sector

Vinay Ahuja (IIFL) for encouraging me to explore cinema as an asset class

### The causes you are supporting

Girl child education and cancer patients

### Mentor

Sharad Sharma, iSPIRT

### Biggest Career Misstep

Copy-pasting business models from the US in India without studying the unique Indian consumer mindset

### And Lessons learnt

Always pilot new ideas in small ways before going "all in"

### What next?

To setup India's first successful Cinema Fund, an AIF to the tune of Rs. 100 crores



Presented by



“

## THE TOTAL MONEY MAKEOVER



### Success Mantra

Patience, belief, focused hardwork, and dignified persistence

### Inspiration

My grandfather, Late Prof. J Ganguly (Retd. Chairman – Biochemistry Dept., IISc)

### Pillars of strength

My parents and family

### Hobbies & Interests

Hobbies: Music (Blues-Rock, Classic Rock and Rock 'n' Roll); I am the keyboardist & vocalist of my own band- Border Blast, in Bangalore. Other hobbies: Tennis, TT & Swimming. Interests: Travel, food & international cuisine, Indian Classical Music, stock trading and angel investments.

### Career Goal

To start my own Private Equity fund, and build an AUM of \$ 1 Bil. within 10 years.

### Role model in Indian alternative Investments sector

1. Bala Deshpande (Mega Delta), 2. Nitin Deshmukh (Kotak), 3. Gopal Jain (Gaja), 4. Mohandas Pai (Aarin), 5. K P Balaraj (Westbridge, also because he's a top-class tennis player and dedicates sufficient time a week towards it. Tennis is a sport I enjoy playing.)

### The causes you are supporting

My family and I have made donations to and supported the NAB (National Association for the Blind), ISKCON: Akshaya Patra, Rotary and many other philanthropic organizations, and I have helped support a social business in the rural handloom & handicrafts space.

### 5 members dream team in the alternative investments space

1. Ashish Dhawan
2. Warren Buffet
3. Veronica Eng
4. Subrata Mitra
5. K Ganesh

### Mentor

1. My grandfather – Late Mr. T Subbarao – Indian legal luminary: Corporate Lawyer & Income Tax expert (Retd. Sr. Partner, King & Partridge, Advocates & Solicitors)
2. Kulwant Singh – Former Interim Dean, current Professor, Strategy & Policy, NUS Business School, Singapore
3. T S Suresh – Partner, King & Partridge
4. My sounding boards and ever-dependable guides are my uncles

### Biggest Career Misstep

Joining the private banking industry after my MBA, instead of heading straight into an investment banking/ VC role.

### And Lessons learnt

While working as a private banker gave me some insights into alternative investments (specifically Private Equity) and a network into the investment fraternity, being a part of a larger Investment Bank or Venture Capital/Private Equity Fund would have given me more exposure to and a better understanding of the space, investor appetite & transaction nuances, as well as industry contacts, which could have been leveraged to branch out on my own.

### What next?

- a) Representing a large corporate conglomerate in implementing its inorganic growth strategy through M&A or/and leading its private investments initiative into start-ups and SMBs. Or;
- b) Raising/joining a large VC/PE Fund, and contributing actively from fund raising to evaluation, investment, portfolio management and exit



Presented by





## THE MONEY GAME



### Success Mantra

There are no short cuts to success

### Inspiration

Warren Buffet / Dhirubhai Ambani / Uday Kotak

### Pillars of strength

My Family

### Hobbies & Interests

Playing lawn tennis

### Career Goal

To be amongst the top investment professionals globally and be able to raise a fund on my own credentials

### Role model in Indian alternative Investments sector

Ashish Dhawan, ChrysCapital

### The causes you are supporting

Under privileged children's education

### 5 members dream team in the alternative investments space

1. Ashish Dhawan
2. Renuka Ramnath
3. Sameer Sain
4. Ajay Relan
5. Niten Malhan

### Mentor

My Dad and Mr S Srinivasan  
(CEO – Kotak Funds)

### Biggest Career Misstep

Got busy with deals early on in my career, should have tried pursuing an Ivy league MBA

### And Lessons learnt

When things look good, they are not so good. When things look bad, they are not as bad either. Try and stay balanced

### What next?

Keep your head down and work hard



Presented by







## The Value of Debt



### Success Mantra

Key to success is to decipher the big picture behind every small task

### Inspiration

Milton Friedman for being the best elucidator of capitalism, B.R. Shenoy for being the sole dissenter to *The Second Five Year Plan*, and JRD Tata for his brilliant leadership

### Pillars of strength

My wife

### Hobbies & Interests

Writing, history, economics, aviation, photography

### Career Goal

To set up a global asset/wealth management company which places the highest emphasis on knowledge, client interest and transparency

### Role model in Indian alternative Investments sector

Radhika Gupta, CEO, Edelweiss Asset Management

### The causes you are supporting

Prevention of cruelty against animals

### 5 members dream team in the alternative investments space

1. Nassim Nicholas Taleb – for his absolutely brilliant understanding of risk
2. George Soros – for his theory of reflexivity, contrarian views and going all in
3. Ray Kroc – for his sharpness in identifying the potential behind the idea of McDonalds
4. Grace Groner – for being the most unexpected successful investor - amassing USD 7 million in wealth from a frugal salary
5. L.N. Mittal – for starting from a small steel plant in Indonesia in 1976 to building the largest steel empire in the world

### Mentor

Bindu Ananth (Chair- Dvara Trust), Nemkumar (Head – Institutional Equities, IIFL), Saumitra Bhaduri (Professor, Madras School of Economics), Somya Sethuraman (my wife)

### Biggest Career Misstep

Being impatient for 'what's next' and not focusing on the present in the early part of my career

### And Lessons learnt

Planning ahead is important, but do not lose focus on the present

### What next?

India's AUM-to-GDP ratio is low even when compared to emerging economies and there is tremendous potential for growth going forward. I believe the asset management industry in India is at an inflexion point and the next few decades will see a larger part of household savings moving into formal asset management products. Excited to be part of this fascinating journey



Presented by





## IN DEFENCE OF FOOD



### Success Mantra

Collaboration beats competition. Every single time

### Inspiration

William Henry Draper III

### Pillars of strength

My family

### Hobbies & Interests

Photography, model construction systems, cooking

### Career Goal

Manage a multi asset class, a multi geography, agriculture-tech and food-tech investment conglomerate

### Role model in Indian alternative Investments sector

Too many to name. The sector shines because of collaboration not because of individuals

### The causes you are supporting

Public health advocacy, the elimination of hunger, enabling sustainable agriculture

### 5 members dream team in the alternative investments space

I would not trade my colleagues at Omnivore for anyone in the world!

### Mentor

Mukesh Sharma, he taught me my investment basics, I still use them today

### Biggest Career Misstep

I spent two years in the UN which should have been spent building a head start in the investment sector

### And Lessons learnt

Infinite variables come together in infinite ways to make investments work. There is no secret sauce

### What next?

Continue on my journey with Omnivore! My personal goals are deeply intertwined with my fund's goals



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## “ UNSHAKABLES



### **Success Mantra**

'It is not the mountain we overcome, but ourselves' – Sir Edmund Hillary

### **Inspiration**

Is everywhere but should be innate

### **Pillars of strength**

My family (wife, daughter, brother, parents, in-laws), friends, and my team

### **Hobbies & Interests**

Tennis, yoga, anything to do with Spain

### **Career Goal**

To create value for myself and those connected to me

### **Role model in Indian alternative Investments sector**

Ashish Dhawan, for his track record, personality and legacy

### **The causes you are supporting**

Literacy, Clean Beaches, Neighborhood management

### **5 members dream team in the alternative investments space**

1. Ashish Dhawan
2. Shailendra Singh
3. Leon Black
4. Jeff Bezos
5. Rajan Anandan

### **Mentor**

Lots of individuals

### **Biggest Career Misstep**

Not adapting at a faster pace

### **And Lessons learnt**

Everything has its time

### **What next?**

Learning lots, investing in myself and other opportunities



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“

## THE COLOUR OF LAW



### Success Mantra

There is no substitute for Passion and Hard Work! Put passion in your job and there won't be a single day you will be required to work; 'cause you will be only pursuing your passion! And whatever you choose to do with your life, be proud of the person you've become

### Inspiration

Mr. Narendra Modi (Hon'ble Prime Minister of India) – For what he has achieved and become from the adversities and grassroots where he started from

### Pillars of strength

God, My Parents

### Hobbies & Interests

Art & Travel

### Career Goal

I think my main commitment as a lawyer, is to serve my stakeholders with high quality output, continue to strive for bigger and better objectives in providing legal strategies, advisory, paper work in their support and defense; to fulfill my role with high level of ethics. To make the work function not only more lucrative for myself but also for my team and the stakeholders around me, but also more enjoyable as well, by constantly innovating and aiming at helping achieving the organization goals with high quality output, lowered costs, efficiency, knowledge sharing, mentoring and development of fresh talent

### Role model in Indian alternative Investments sector

Mr. Rashesh Shah (Chairman & CEO Edelweiss Group), Mr. Nitin Jain (CEO – Edelweiss Global Wealth and Asset Management), Mr. Nishith Desai (Founder - Nishith Desai Associates), Ms. Zia Mody (Founder and Managing Partner - AZB & Partners)

### The causes you are supporting

EdelGive Foundation (education, women empowerment), Annamrita Foundation (mid-day meal program)

### Mentor

Mr. Deepak Mittal (CEO-Credit, ECL Finance Limited)

### Biggest Career Misstep

Fortunately none till now

### And Lessons learnt

Always believe in yourself and in the Unseen Hand

### What next?

Keep walking, keep running, just keep marching ahead



Presented by



“

## THE MAGIC OF THINKING BIG



### Success Mantra

Aim for mastery in what you really love to do. Try to be the world's best in your chosen sphere while having fun

### Inspiration

My inspiration comes from everyone who has achieved real mastery in what they love to do. So it includes Roger Federer, it includes Virat Kohli, it includes Leonardo Da Vinci and it also includes Warren Buffett

### Pillars of strength

Family including my parents & sister who have always been rock solid behind me, my wife who has the patience to let me undertake my volatile

### Hobbies & Interests

Reading books and Travelling to newer places

### Career Goal

Take Maximal Capital to great heights of success, thereby creating one of India's few buy side firms where the interest of fund managers and investors are fully aligned with a profit share only fee model.

### Role model in Indian alternative Investments sector

Ashish Dhawan who is the founder of Chrys capital, arguably India's best known private equity firm

### The causes you are supporting

Currently looking to support organizations which work on population control amongst the poor. The biggest problem for the poor in India is that they lower their own wages by creating additional labour supply and the only solution is to curb this supply through effective population control measures

### Mentor

My mentors are the authors of the books that I have read and keep re-reading. Joel Greenblatt for special situations, Howard Marks for investment philosophy, Late Parag Parikh for Value investing are a few of them

### Biggest Career Misstep

Staying too long in one of the jobs once the learning curve flattened

### And Lessons learnt

Keep learning always. Keep having fun while you are at it

### What next?

We have just embarked on a very exciting entrepreneurial journey and the plan is to establish Maximal Capital as one of India's best in class equities focused buy side firm with a complete alignment of interest with investors



Presented by





“

## BLUE OCEAN STRATEGY



### Success Mantra

Give your best every single day without worrying about immediate gratifications

### Inspiration

Warren Buffett & Charlie Munger

### Pillars of strength

Mom, Wife and Daughter

### Hobbies & Interests

Reading non-fiction books, watching movies / theater, swimming

### Career Goal

To deliver top decile returns for investors over the long term

### Role model in Indian alternative Investments sector

Ashish Dhawan

### The causes you are supporting

Youth employment, Improving Corporate Governance standards in listed Indian Companies

### 5 members dream team in the alternative investments space

1. Ashish Dhawan
2. Vishal Nevatia
3. Hetal Gandhi
4. Subrata Mitra
5. Karan Bhagat

### Mentor

Hetal Gandhi – MD, Tano Capital

### Biggest Career Misstep

Not taking out time to read enough in the earlier part of my career

### And Lessons learnt

No matter how busy you are in your day-to-day activities at your job, continue to read along the way to get direction, purpose and the knowledge edge

### What next?

Continue growing 2Point2 into a respected Alternative Assets platform; We are launching a Long-Short AIF in addition to the PMS that we are currently running



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“

## STORMING THE COURT



### Success Mantra

Perseverance

### Inspiration

To give it all to the society back after making it big. My fathers and mothers rags to riches story.

### Pillars of strength

My son and daughter, their picture

### Hobbies & Interests

Badminton, Poker and Travelling

### Career Goal

Be the best fund manager of the World

### Role model in Indian alternative Investments sector

Rashesh Shah, Edelweiss

### The causes you are supporting

Angel Networks, Trustee in various religious Organizations, Girl Child wellbeing.

### 5 members dream team in the alternative investments space

1. Narayan Murthy
2. Ratan Tata
3. Siddharth Jain
4. Pranav Kothari
5. Chrysalis Capital

### Mentor

My Father and My Uncle(Mama)

### Biggest Career Misstep

Giving up early on Pre Paid broking Business I setup in 2006 2007, Currently Zerodha is on same model. I was few years before time

### And Lessons learnt

Never Give up

### What next?

Hedge Fund, Hedge Fund and Hedge Fund. This is the last thing I will do in my life. Make it big or not this is what I will dedicate my life to



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## THE BIG SHOT



### Success Mantra

Nothing in this world is beyond anyone's reach or limits. Determination, together with patience and persistence will get you anywhere

### Inspiration

A number of sources. Predominantly among them, success stories of self-made individuals who have gone on to create extraordinary institutions

### Pillars of strength

My family

### Hobbies & Interests

Playing cricket, tennis & golf. I enjoy reading, travelling and spending time

### Career Goal

To grow Paragon Partners to India's leading alternative asset management

### Role model in Indian alternative Investments sector

Ashish Dhawan (Founder – ChrysCapital), Gaurav Dalmia (Chairman – Dalmia Group Holdings)

### The causes you are supporting

Gender equality; Access to education for children

### 5 members dream team in the alternative investments space

The Paragon Team!

### Mentor

Deepak Parekh

### Biggest Career Misstep

Not starting Paragon Partners sooner

### And Lessons learnt

Take the entrepreneurial plunge. There is no better time than the present!

### What next?

Steering Paragon Partners on its next wave of growth



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## THE LEGAL EAGLES



### Success Mantra

Just a lot of hard work

### Inspiration

My father SS Mandal and my mentor Sharda Balaji

### Pillars of strength

My husband Dr. Arnab De, my partner Sharda Balaji and my team at NovoJuris

### Hobbies & Interests

Travelling, reading

### Career Goal

Being an expert's expert

### Role model in Indian alternative Investments sector

Sarath Reddy, Unifi Capital

### The causes you are supporting

Abolition of angel tax

### Mentor

Sharda Balaji

### What next?

Continuing to be the best in what I do



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## THE CODE OF TRUST



### Success Mantra

Never Settle ... Get out of your Comfort Zone

### Inspiration

My clients and well-wishers

### Pillars of strength

Discipline, hard work, doing things myself

### Hobbies & Interests

Photography, Cycling, Exploring new Cuisines & Restaurants, Food Blogging (have my own instagram page @letseatnshare)

### Career Goal

To own and run a company with six sigma status

### Role model in Indian alternative Investments sector

Mr. Kanwaljit Singh - Managing Partner (Fireside Investment Advisor LLP),  
Mr. Vinod Murali - Alteria Capital Advisors LLP

### The causes you are supporting

I am setting my own Foundation with help of a friend and colleague to help needs and education of underprivileged children. Currently helping a School/ Hostel near Pune for Tribal children with the support from my friends.

### 5 members dream team in the alternative investments space

1. Kanwaljit Singh, Managing Partner (Fireside Investment Advisor LLP)
2. Vinod Murali - (Alteria Capital Advisors LLP)
3. Vaishali Urkude (COO – Beacon Trusteeship Limited)
4. Chetan GMS – (VP Finance, Stellaris Venture Partners)
5. Myself

### Mentor

My Brother, Mr. Vinayak Prabhu to whom I owe everything what I am today

### Biggest Career Misstep

Before starting my Articleship for CA, I never concentrated on technology related areas like computers which was required for my profession

### And Lessons learnt

I ensured that technology will never affect my carrier and have always tried to learn and adopt beforehand

### What next?

I believe in Kaizen. Immediate next is to take Beacon Trusteeship to new heights with support from the founder and management who have shown confidence in my work and me



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## “ ZERO TO ONE



### **Success Mantra**

Do not have plan B

### **Inspiration**

Elon musk, Geoffrey Hinton

### **Pillars of strength**

Daughter, Team, Phansi (Cofounder), Hemant (Investor)

### **Hobbies & Interests**

Organic farming, cooking & composing music

### **Career Goal**

Goals keep changing

### **Role model in Indian alternative Investments sector**

Renuka Ramnath

### **The causes you are supporting**

Farmer upliftment, rural education

### **5 members dream team in the alternative investments space**

1. Jaffray Woodruff
2. David Shaw
3. Ashwath Damodaran
4. James Simons
5. Renuka Ramnath

### **Mentor**

N.Vishwanadham, Srikanth Soundarajan, Madhu Poomalil

### **Biggest Career Misstep**

Many missteps has led me to where I am. Glad!

### **And Lessons learnt**

Never and always do not exist

### **What next?**

Build more intelligent systems!



Presented by



“

## DOLLARS AND SENSE



### Success Mantra

Do something you enjoy, be curious, be hungry and stay foolish!

### Inspiration

Sportsmen & Entrepreneurs! One can clearly learn a lot and look up on them for their discipline, commitment and ability to handle pressure

### Pillars of strength

My Family and friends

### Hobbies & Interests

Movies, Running, Playing Badminton & Teaching / Academics

### Career Goal

To be one of the foremost influential leaders in the financial services industry and create disruptive impact to benefit the ecosystem for investors and industry equally

### Role model in Indian alternative Investments sector

Karan Bhagat, Founder IIFL Investment Managers

### The causes you are supporting

“Green Leaf” initiative to save the environment & involved in community work with societies / NGOs

### 5 members dream team in the alternative investments space

The more you can dream, the more you can do  
hence it's a dream team -

1. Azim Premji
2. Jack Ma
3. Jeff Bezos
4. Narayan Murthy
5. Ratan Tata

### Mentor

Fortunate in my career to have been guided and learnt from all my mentors/ colleagues in ICICI Securities and Morningstar

### Biggest Career Misstep

To hope ONLY for the best and NOT prepare for the worst

### And Lessons learnt

Maintain equanimity in the face of success or failure and have the will to start again

### What next?

Keep doing things which will continue to have an impact even after one is no longer around



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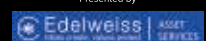


## *Revisiting the Batch of 2018*



**40 UNDER FORTY** 2019  
ALTERNATIVE INVESTMENT  
PROFESSIONALS IN INDIA

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# Unveiling Valuation Challenges

*in reporting of NAV by AIFs under SEBI (Alternative Investment Funds) Regulations, 2012*

**Sunit Khandelwal - Director**, Incwert Advisory Private Limited

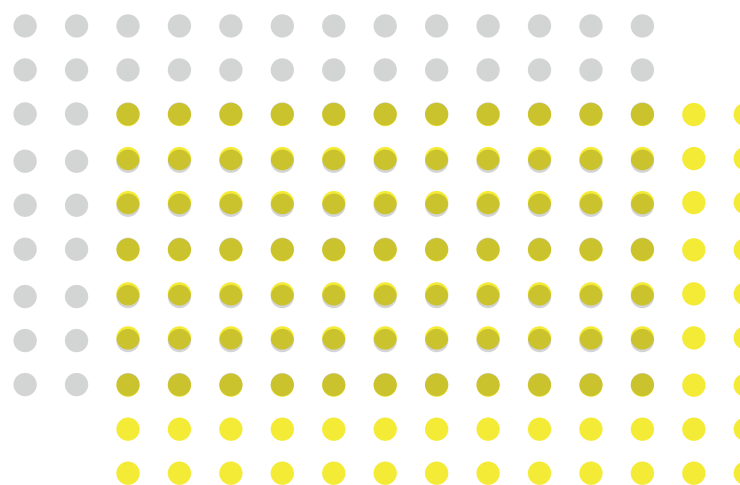
As at December 2018, India had over 500+ funds registered with SEBI under Alternative Investment Funds (AIFs), who together have raised investment commitments of INR 1,795.9 billion and have already invested INR 748.9 billion by June 2018. Given that a large part of these privately pooled investments have been deployed in start-ups, early stage social ventures, real estate assets and distressed assets through series of investments in equity, debt or structured financial instruments issued by the investee entities, reporting of fair value of such investments as part of net asset value (NAV) disclosure has come to hold an overarching necessity for fund managers.

Fund managers must not see fair valuation as a mere accounting exercise, but as a fiduciary and a corporate governance responsibility aimed at true and fair disclosure of approaches, methodologies by giving due consideration to factors concerning portfolio companies which inter alia include analysis of competition, barriers to entry, industry attractiveness, cost and financial structure.

Interestingly, the recent reforms in the Companies Act, 2013 which bring in force Registered Valuers rules and changes in accounting policies following adoption of Ind AS are also having an overwhelming effect on conundrums inherent in a valuation exercise.

Deep diving into challenges in performing valuation merits our attention also because unlike mutual funds, whose NAV is linked to the prices of the listed investments, for AIFs the investment policy may be defined to direct investment in start-ups, social sectors, debt/equity of private enterprises or compound financial instruments where price discovery has its own challenge. Not to forget business restructuring situations such as demerger or business carve-out from listed to unlisted entities and may require additional consideration while computing NAV.

This article highlights the requirement of valuation under SEBI (Alternative Investment Funds) Regulations, 2012, challenges faced and impediments that require further attention. We hope this article will be helpful to gain view on interesting aspects while valuing interests in portfolio companies.





## *Requirements of valuation by SEBI (Alternative Investment Funds) Regulations, 2012*

### **Overview**

Clause 23 of the regulations requires the AIFs to provide to its investors, a description of its valuation procedure and of the methodology for valuing assets.

- Category I and Category II AIFs are required to undertake valuation of their investments, atleast once in every six months (subject to extension of upto one year), by an independent valuer appointed by the AIF.
- Category III AIFs are similarly required to independently calculate the net asset value (NAV) which must be disclosed to the investors at intervals not longer than a quarter for close ended funds and at intervals not longer than a month for open ended funds.

The extant regulation is silent on who is an 'independent valuer'. However, amended SEBI (Real Estate Investment Trusts and Infrastructure Investment Trusts) regulations define "valuer" as any person who is a "registered valuer" under section 247 of the Companies Act, 2013 or as specified by the SEBI from time to time. As such, if the applicability of the definition were to be extended to SEBI (AIF) Regulation, 2012 then investment managers may have to reconsider the qualification of the valuer before appointing them for determining the NAVs.

## *Registered Valuers – low availability of specialists*

Registered Valuers rules look beyond the realm of chartered accountants and merchant bankers who until now had been responsible for issuing fair valuation certificates for tax and regulatory purposes. However, despite the Insolvency and Bankruptcy code, 2016 bringing in the concept of registered valuers, the availability of pool of professionals who can undertake valuation is presently at the low end of the dimension. IBBI website shows that as at end of first week of December 2018, the total number of registered valuers for 'securities and financial assets' were only 87 in number.

The problem is further compounded by the fact that beyond the Big4 accounting firms and some valuation specialist firms, most of the tier-2 and below accounting firms in India are lacking the brawny capabilities which are required to carry out complex valuations – such as derivatives, unlisted bonds, valuation of compound instruments, valuation of start-ups, etc.

## *Valuation challenges & impediments*

***"No single method exists for estimating fair value in good faith because fair value depends on the facts and circumstances of each individual case."***

The section below summarises the various challenges and potential impediments which a fund manager may encounter while determining the NAV.



### *Unit of account measurement*

The first impediment that a fund may come across while reporting its NAV or fair value as part of schedule of investments, is deciding on the unit of accounting. Fund may consider grouping of assets in a given portfolio company held within the fund (e.g. the debt and equity together) and may present in the schedule of investments the aggregate fair value of the investment in each portfolio company along with each class of debt and equity owned in that portfolio company at its allocated value.

In practice, many private equity and venture capital funds report the total value of their aggregate capital position in a portfolio company, and then identify each instrument and its allocated value. This approach assumes that market participants would transact in the various classes of debt and equity as a group of assets, rather than individually.

Consideration is required in allocating on a reasonable basis, possibly by estimating fair value of each instrument independently and then allocating value on a proportionate basis. Alternately, funds may determine the residual fair value for one of the instruments after subtracting the fair value of the other instruments. This is usually seen in situations where funds have both equity and debt position in a single investee company.

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<sup>1</sup>The “good faith” requirement is addressed in SEC Accounting Series Release (ASR) No. 118, and in the December 19994 and April 20015 letters of the SEC Division of Investment Management to the ICI regarding valuation issues. SEC Accounting Series Release No. 118 can be found at <https://www.sec.gov/rules/interp/1970/ic-6295.pdf>



### *Determining the rate of return and time horizon*

In many cases, especially when considering measurement dates prior to an IPO or sale of the portfolio company as a whole to a strategic investor, the desired rate of return should reflect the outlook of market participants. Thus where the market participants are likely to be other portfolio managers, it is helpful to view valuation from their perspective.

Similarly, while the time horizon (cash flows for the investment under current ownership through a liquidity event which could be say, IPO or sale of the portfolio company) is initially considered at the time when the fund invests in the equity or debt instrument, at subsequent measurements, this is a market participant input. The strategies and market considerations will therefore have to be considered in view of the market participants. Determining expected probability, timing and impact of a change of control from market participants' perspective is challenging.





## *Choice of methodology in determining enterprise value*

Estimating fair value is not an exact science, therefore value indications from different methods will not necessarily reconcile, but the results of one valuation method can be used to corroborate, or can otherwise be used in conjunction with the results of one or more other valuation methods in estimating value.

### **Market approach:**

Two commonly used valuation methods for valuing a portfolio company within the market approach are the guideline public company method and the guideline company transactions method. Consideration needs to be given to the following aspects:

- The market approach may be used to value the interests in a portfolio company directly, based on transactions in the company's own instruments. However, calibration may be required to infer the equity value for the investment held by the fund

- When valuing privately-held, early stage portfolio companies, the guideline public company method has significant limitations and challenges. For instance, truly comparable guideline public companies, at a similar stage of development with similar growth and risk expectations, may be unlikely to exist.

- In addition, there may be instances where the portfolio company is comparable to a division within a guideline public company or is comparable to only part of the guideline public company, or vice versa. Consideration would need to be given to assess the importance of these differences in business models.

- Valuation multiples (such as EV/Sales, EV/earnings or EV/net assets) can be calculated on a historical basis or a forward looking basis. The selection of historical versus forward looking multiples requires judgment about which measure(s) are most indicative of a normalized level of operations going forward.

- Consideration will also be required for non financial metrics and key performance indicators sometimes used by market participants. These include price per subscriber in a telecommunication or cable business, price per bed in hospital, price per room in a hotel business, clicks or visits for an early stage internet company

- Valuation multiples may require to be adjusted. These adjustments relate to factors including profitability, anticipated growth size, leverage, working capital, nonrecurring or non-operating income or expenses, or differences in accounting policies or principles.



Similarly, subject portfolio company's financial data may need to be adjusted for non-operating, non-recurring, one-time or exceptional income or costs.

### Income approach:

The valuation method commonly used in applying the income approach to value an interest in a privately-held company is the discounted cash flow (DCF) method. The DCF method requires estimation of future economic benefits and the application of an appropriate discount rate to equate them to a single present value. Key considerations in application of DCF are as follows:

- While determining the discount rate, one should keep in mind that venture capital and private equity portfolio rates of return reflect a return considering the diversifiable risk across the entire portfolio. To the extent that an investment in a specific company has additional non-diversifiable risk or financing risk, the discount rate for expected cash flows should be higher than the portfolio rate of return.
- For start-up portfolio companies with little or no operating history, forecasts beyond one or two years are likely to be speculative and unreliable.
- Terminal value is often a significant component of the total enterprise value and it should be carefully considered. Acceptable and commonly used methods for calculating a terminal value include a long-term growth rate method such as the Gordon growth model, the two-stage growth method, the H-Model method, and the observed (exit) market multiple method.

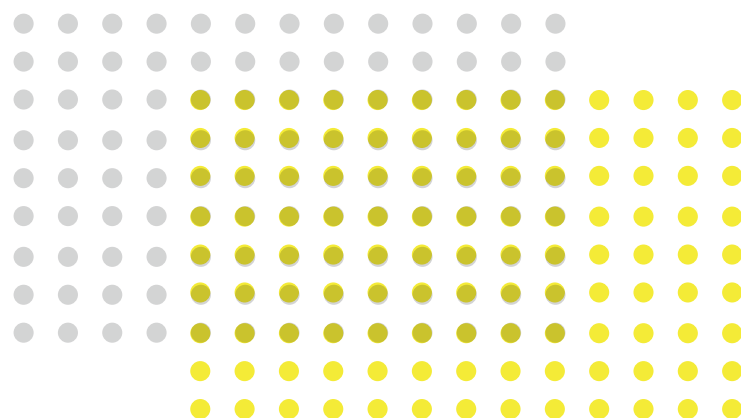
- Another consideration in applying the income approach is the basis of the valuation i.e. whether the resulting portfolio company or portfolio company's instrument value would be considered controlling or minority and whether it would be considered marketable or nonmarketable. Valuation will be adjusted accordingly.

- Amount of leverage available could be another critical factor in estimating the value of a business and the overall cost of capital for the business.

### Asset approach:

Asset approach serve as a 'reality check' on the market and income approaches, and provide a 'default value' if the available data for the use of those other approaches are incomplete or speculative.

The asset approach is typically more relevant for valuing enterprises and the interests in the enterprise in the earliest stages of development, prior to raising arm's-length financing, when there may be limited or no basis for using the income or market approaches. For example, at the early stages of real-estate development projects or other development projects, market participants may not assign value for the potential future profits of the business beyond the amount spent in developing the tangible assets to date.



## ***Valuation of portfolio companies with simple structure***

In a simple capital structure, the value of the single primary class of equity interests in the portfolio company typically is calculated based on a pro rata share of the total enterprise value less the value of debt for valuing equity.

It is important to note that the assumptions used in valuing the equity interests in the enterprise generally should be consistent with the portfolio company's plans under current ownership. This is because a market participant acquiring an equity interest would not have the unilateral ability to change the portfolio company's strategy and policies.

Consideration should be given to adjustments ensuing from controlling or minority and marketable or nonmarketable interest. Furthermore, in case of complex structures, fund may have to evaluate utilising more sophisticated methods to fair value.

## ***Equity interest in complex structures***

Thus far INR 417 billion has been deployed by category II AIFs who are essentially private equity funds or debt funds. It has been observed that many (if not most) venture capital-backed and private equity-backed portfolio companies are financed by a combination of different classes of equity, each of which provides its holders with unique rights, privileges, and preferences. This results in a valuation challenge. When estimating the fair value of the fund's investment, the fund is required to determine how each class of equity would participate in future distributions from a sale or other liquidity event, and the implications for the fair value of each class of equity.

Quite often venture capital and private equity investors seek downside protection and significant control or influence over the portfolio companies' activities. In such cases investors may receive preferred stock that conveys various rights to its holders. Such rights are meaningful, substantive rights and often are intensely negotiated and bargained for by the investors. Therefore, an understanding of the rights associated with each class is vital for valuing these different classes of preferred stock in a portfolio company.

Key considerations in complex structures involving compound instruments:

- Preferred stocks usually carry liquidation preference and estimate of fair value is therefore linked to the future payoffs at the time of the liquidity event. It is therefore critical to identify various break-points for correctly allocate enterprise value to various series of preferred stock, stock warrants and equity.
- One has to be mindful of the rights received by the preferred stockholders which are in the nature of economic and/or management rights. While these rights are meaningful and substantive, not all can be valued objectively. Some of the critical rights which allocation methods can value include right to cumulative preferred dividends, liquidation preference, participation, and conversion rights.
- Evaluate various available techniques to value compound instruments. Four commonly applied techniques include – a) probability-weighted expected return method, b) option pricing method, c) current value method, and d) hybrid method, a hybrid of scenario-based methods and option pricing method. Each method has merits and challenges and no single method for valuing equity interests appears to be superior in all respects and circumstances over the others.



- In several situations VCs invest with bimodal outcomes or high probability of conversion. They frequently value equity on a fully diluted basis on an assumption that not much benefit will accrue through liquidation and value will be realised only through sale of the company or an IPO. Complex valuation techniques are therefore not utilised in such situations.
- In some cases, the investment may be in participating preferred rights. These have two components: a debt-like preferred instrument corresponding to the liquidation preference, plus an as-converted interest in the common equity. Valuing such instrument will require an assessment of probability of a sale or other exit and qualified IPO.

### ***Valuation challenges in early stage investments***

Value creation in such portfolio companies is frequently a high-risk process and fund manager is likely to come across series of challenges in such valuations.

Portfolio companies often have unproven business model, little or no infrastructure, an incomplete management team, and little or no short-term prospects of achieving a self-sustaining business with revenue, profits, or positive cash flows from operations. As such, determining enterprise value is not easy for such businesses and valuation techniques such as Berkus method, First Chicago method may be employed to arrive at a range of value. Most businesses in the early stage may take quick strides and value creation metrics can be assessed on a quarterly basis. As such, fair value of such investments could be monitored on a quarterly basis from NAV stand-point. Assessing value at intervals shorter than three months will be challenging.

### ***Valuation challenges in roll-up and turn-around investment strategies***

Certain private equity funds at times adopt investment strategies around roll-up or turn-around of businesses. These are long terms strategies where value creation will come with some gestation period. It is therefore reasonable to have the NAV determined on a bi-annual or annual basis as review period of less than six months is unlikely to present a vastly different picture.

### ***Investment in debt instrument or debt-like preferred stock with a specified cumulative dividend rate***

Observable price of debt which is listed can be readily obtained from the relevant exchange where it trades. Challenge arises when traded price as of the measurement date is not available. In such situations the best practice for estimating the fair value of a debt-like preferred stock is the yield method.

In applying yield method, market yield for the debt as of the valuation date is required to be assessed. This can be measured relative to the market yield at the issuance date by observing-

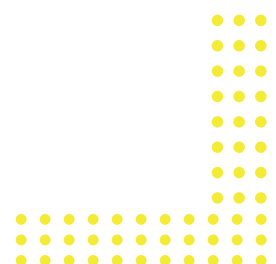
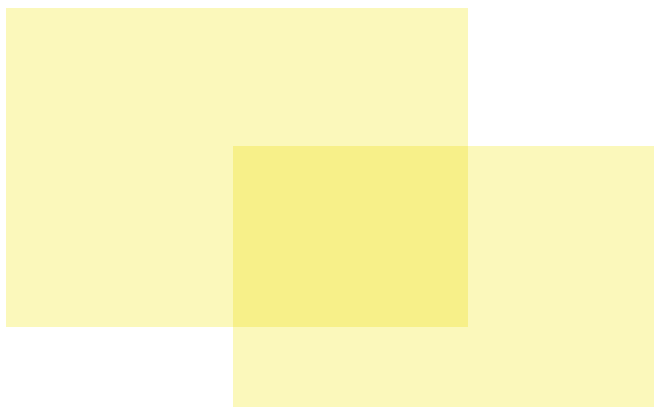
- The change in credit quality for the portfolio company.
- The change in credit spreads for comparable debt instruments, considering the characteristics of the debt compared to the comparable traded debt, including the seniority, strength of the covenants, portfolio company performance, quality of the assets securing the debt, maturity, early redemption features or optionality, and any other differences that a market participant would consider in determining its fair value.
- For fixed-rate debt, the change in the reference rate matching the remaining maturity of the debt (that is, the change in the LIBOR swap rate or risk free rate).

Furthermore, in cases where credit rating of the portfolio company is not available, the credit risk will need to be derived synthetically using a variety of metrics and some form of regression analysis. However, such analysis does not take into consideration any qualitative factors that may impact the credit rating of the portfolio company

Other considerations in valuing debt include:

- Debt may in certain instances include change of control provisions. In assessing the value to the debt holders, the penalty (or benefit) associated with the below- (or above-) market yield will typically continue only through the anticipated liquidity event for the portfolio company.
- If the debt has prepayment features (such as call or put rights), it may be necessary to consider the optimal timing of repayment for the issuer (call features) and the holder (put features)
- In some leveraged buy-out situations, the debt may have much higher leverage than is observable in the public debt markets. As such, it may not be possible to estimate the market yield from public debt data. In such situations, entire enterprise value may be allocated to debt.
- In some cases, fund may have only limited information on the debt's terms and it may be therefore difficult to assess the value of debt.

Judgement is also required to estimate the value of debt for the purpose of valuing equity i.e. enterprise value less value of debt. In many cases, funds valuing equity interests may use the par value, face value, book value or payoff amount as a proxy for measuring the value of debt for the purpose of valuing equity. Change in basis of value of debt will therefore cause the value of equity to be range bound.





### *When market is in distress*

If on the measurement date, the market was in distress for private company equity interests, and the fund intends to sell such investment, the fair value measurement would still consider how market participants would transact on the measurement date. Such considerations would include factors such as a market participant's longer expected time to exit or a higher required rate of return, irrespective of the asset holder's intent to sell.

### *Minority investment*

When a fund makes a minority investment it will typically negotiate a path to liquidity (for example, a put right or mandatory redemption feature that forces the company to repurchase the investment at the higher of cost or fair market value or a negotiated formula price after a specified amount of time). Such liquidity rights should be considered when estimating the fair value of the investment.



### *Calibration*

Calibration is required when the transaction is at fair value at initial recognition. The goal of calibration in this context is to ensure that at subsequent periods, valuation techniques use assumptions that are consistent with the observed transaction, updated to take into account any changes in company-specific factors as well as current market conditions. For example, in the market approach:

Suppose that a company is acquired for 10 times the last 12 month (LTM) earnings before interest, taxes, depreciation, and amortization (EBITDA). Further, suppose that the median multiple observed for the selected guideline public companies in the guideline public company method is 8 times the LTM EBITDA. The difference



in this example was due to the market participants' assessment that the near term financial performance for the company was likely to exceed that of its peers.

In the next measurement period, it typically would not be appropriate to ignore the multiple implied by the transaction and assume that the multiple used to estimate the company's value would suddenly fall to be consistent with the median of the guideline public companies. Instead, at subsequent measurement dates, the valuation would consider the company's progress and changes in observable market data to estimate the fair value under current market conditions. For example: Suppose that after considering the company's recent performance and positioning, market participants would still expect the company to outperform the guideline public companies. Further, suppose that the median multiple for the guideline public companies has improved to 9 times the LTM EBITDA instead of 8 times. Then, when calibrating the model, it might be appropriate to select a multiple higher than the 10 times LTM EBITDA implied in the initial transaction.

### ***Impact of control premium and marketability***

Calibration also resolves around the challenges faced in valuing private equity and venture capital investments – namely, assessing the valuation impact of the level of control and illiquidity associated with an investment.

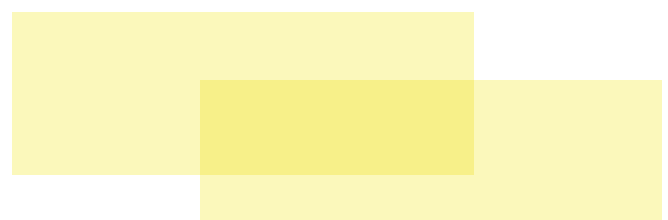
For example, under the income approach, the fund would initially estimate the expected cash flows for the investment under current ownership through a liquidity event or through the maturity of the instrument, and then calibrate to calculate the required rate of return for the investment on the initial investment date. Since the transaction price

already incorporates market participants' required rate of return, no additional discount for lack of control or discount for illiquidity would apply.

For subsequent measurement dates, the fund would consider the updated expected cash flows and the updated market participants' return assumptions given current market conditions. A similar thought process would be used under the market approach.

Empirical studies of premiums paid for acquisitions of companies when compared with the minority trading prices prior to the acquisition announcement suggest that control premium could range in the median of 35 percent in India. Likewise, there are various international studies such as annual Mergerstat study and Coolidge study which indicate similar range. These are only empirical values and due consideration must be given to each deal dynamics.

Similarly, a discount for lack of marketability is often applicable if there is no ready market for the interest being valued, as is the case for most small businesses. The various benchmark approaches such as restricted stock studies, pre-IPO studies and security based approaches such as the Longstaff study, the Chaffee study, etc. indicate the range of applicable discount to be 20-35 per cent. Clearly, a valuation specialist will need to bring in deep judgment when questions of such adjustments arise.



<sup>2</sup>These are results of analysis of closed transaction between 2005 and 2015. It excludes negative premium and premium in excess of 100 percent.

## *Inferring value from transactions – special situations*

In several cases value of instrument needs to be inferred from transaction in the portfolio company's instruments. Few of such cases are discussed below:

### **When transaction price includes strategic premium**

At times price includes premium for strategic benefits such as in case of strategic preferred stock financing transactions. This is typically common when pharmaceutical companies invest in biotech companies at relatively early stages of development and may pay a premium for new drug discovery potential. Transaction price may therefore have to be adjusted to strip out the additional benefits.

### **Preferred stock investment in tranches**

In situations where investment in preferred stock happens in tranches, existing portfolio investors having interest in equity must adjust the transaction value appropriately as the initial investment price typically reflects a premium to the value on the initial investment date, and the later investment is at a discount to the value.

### **Use of own shares in acquisition**

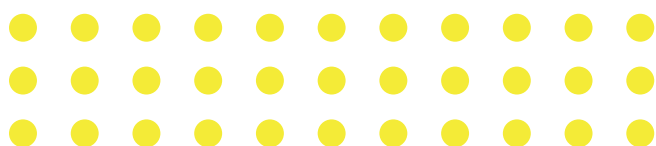
When portfolio companies use their own shares in the acquisition of other companies, the transaction documents may specify a value for these shares. It is important to carefully consider the rights and preferences of each class of equity when estimating the aggregate fair value implied by the transaction.

### **Direct common stock acquisition**

In some cases, PE or VC funds may purchase common stock directly from common stockholders in the company. Frequently, these transactions involve the purchase of the common stock at the same price as the preferred stock. These situations therefore require careful analysis of the negotiation dynamics to understand the investor motivations and the implications for the fair value of the common stock.

### **Demerger of the portfolio company**

In limited situations, the portfolio company may decide to restructure their businesses by carving-out or demerging certain business undertaking. The process will involved issuing instruments with similar feature as the original. Enterprise value will thus need to be bifurcated between the two businesses. In case of listed portfolio company, consideration may be given to difference between the last trading price prior to demerger and the opening price of the demerged entity for determining the price of resulting business.



## *Role of management*

Valuation specialists typically rely on management for supply of business plan and information on the business. Their analysis and understanding may be limited to the information provided and discussion with the management. Hence, it is quintessential for Funds to ensure that projections supplied by management of portfolio companies are based on analysis of historical performance and projected market growth for their products/ services. Benchmarking with peers could also throw light on industry wide performance metrics.

## *Closing thoughts*

Valuation has come to play a centre stage role in corporate governance. SEBI (Alternative Investment Funds) Regulations, 2012 clearly directs the funds to provide to its investors, a description of its valuation procedure and of the methodology for valuing assets. The stakes involved in correctly presenting NAV have therefore enhanced enormously and funds must take on reporting of NAVs as a serious fiduciary responsibility.



# *The Leapfrog Moment in the Asset Management Industry*

**Rakesh Rathod** - Head- Domestic Sales, Edelweiss Asset Services

Time and again, in India, we have seen certain industries like Information Technology or Telecom, leapfrogging against the various predictions and forecasts that were made for their growth. In the days to come, inclination of the Indian population towards investing in stock markets in India, shall see a similar trend.

So far, mutual funds and insurance companies have tasted initial success by targeting a set of individuals, largely 'savers', through various investor awareness campaigns. On the other hand, traditional investors have lately realized that by taking some professional help and financial advisory, they can hone their skills to manage risks and avail better returns on their investments.

The asset management Industry in India consists of a vibrant and rapidly growing mutual funds sector, an insurance sector that is dominated by unit-linked insurance plans, and venture capital funds, both domestic and foreign. Foreign Institutional Investors (FIIs) also form a category that pools foreign retail or institutional funds and invests in Indian debt and equity. Private Equity funds – both domestic and foreign – constitute a booming segment as well. In the last decade or so, this industry has witnessed a wide range of regulatory changes that have brought about increased competition and a very impressive growth rate. Mutual Funds, Portfolio Management Services and Insurance have been at the forefront in bracing this growth. Alternative Investment Funds have been allowed even more recently.

Today, India stands poised at the threshold of major regulatory changes that can open up new segments like Commodities, Real Estates and Pension Funds to retail investors and private and foreign fund managers. The Indian equity market with its remarkable bull run throughout has boosted major growth in the asset management industry and this rapid growth is likely to only continue.







Investors—foreign and domestic— have continued to pour in money in the market. Particularly, retail investors have been consistently channeling their savings into the equity market through the systemic investment plan (SIP) route provided by equity mutual funds. The monthly SIP flows touched a staggering Rs 8,000 crore in October 2018 from a mere Rs 1,950 crore in April 2014, according to data from the Association of Mutual Funds in India. Similarly, astonishing growth can be seen in a fairly new investment avenue - Alternative Investment Funds since their launch in 2012. As of June 2018, commitments raised by AIFs amounted to 1.79 lakh crore - a staggering amount, considering the fact that this investment avenue is open only to a small population of HNIs and Ultra HNIs with minimum investment amount of 1 crore.

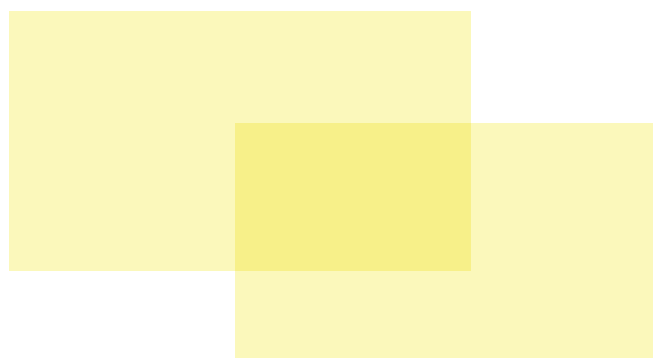
These Alternative Investment Asset Management Companies (AMCs) are led by young and talented fund managers who are unique in their investment philosophies and are turning the tides of the Indian capital markets.

Considering the number of new funds getting registered with SEBI and increase in commitments and investment amounts, it is safe to say that alternatives are establishing themselves as a prominent investment opportunity which promise attractive risk rewards as an unconventional investment, which were previously ignored in favour of traditional investment options of equity, debt etc. The pace of alternatives may well outgrow mutual funds in percentage terms due to low base effect, which was in the same phase a decade ago.. Venture capital /private equity funds which fall in category 1 and 2 of alternative investment funds have opened up lucrative investment opportunities for sophisticated investors which were previously limited to only institutions. There is a massive inflow of foreign capital which is increasingly investing in alternatives, thus contributing to the growth of the industry.



There is another indication of inorganic growth in this industry. The potential of the industry is attracting young fund managing talent in who are quitting AMCs and setting up their own funds. This emerging trend can be attributed to the freedom given to fund managers to take bare-knuckled decisions involving buying companies and either turning them around or taking them apart to unlock the value in their parts – something that is difficult to get when you are part of the AMC. Here, fund managers can pool money from wealthy individuals and entities and invest in aggressive and unconventional ways. Some bets might fail but many make spectacular returns. When things go well, investors end up with a rate of return that makes them very, very happy.

The industry is witnessing a stream of high-profile fund managers with huge investor following, who are setting up their own funds, noteworthy names include Devinjit Singh, a Carlyle veteran, who quit in June 2018, has already joined hands with two other industry veterans —Ajay Relan and P. Srinivasan — and has have received a license with SEBI for a PE fund named Xponentia. Many more senior professionals like Manoj Dengla of Carlyle, Harsha Raghavan of Fairbridge have left & have already declared their intention to set up new funds.





Kenneth Adrade, former chief investment officer at IDFC Asset Management Co started the trend of equity market investing funds through the category-3 alternative investment fund (AIF) Old Bridge Capital. Among the industry veterans who followed his lead are few notable examples like Sunil Singhanian who quit Reliance Mutual Fund, to set up Abakkus Asset Manager and recently stated running a hedge fund which allows more flexibility in managing sophisticated money. We expect this trend to continue with increasing number of mutual fund managers treading the path of alternative investments.

While we are witnessing a stream of alternative investment fund registrations with SEBI, these fund managers who are venturing out on their own find the rigorous documentation requirements by the regulator very challenging. In most cases, it becomes very difficult to create a seamless operations system and this is where there is a strong need for a platform - One that can take over all the hassles with an end-to-end approach for the various needs of fund managers in the Alternate Investment Fund & Portfolio Management Services Space, allowing them to focus on their core which is fund management. Edelweiss Prime Services has been a pioneer in setting up this platform and offers a plug-and-play model that suits the requirements of modern day asset managers, by leveraging on existing relationships, expertise and experience.





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# *OYO rooms vs Stayzilla : Evaluating Risks is Critical for Investing*

Himanshu Verma & Anurag Bhatnagar - Founders, ShiftAltCap

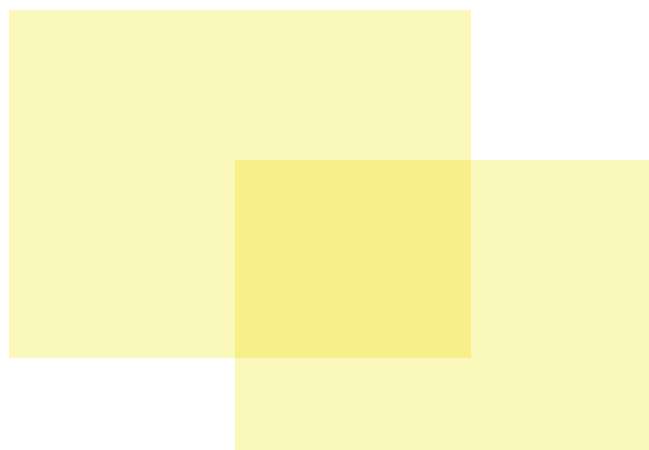
Investing in early stage companies requires a different approach than other equity assets for several reasons. Usually, there is no track record, business models are untested and execution is yet to be proven. Yet, the returns from successful companies in this asset class are very attractive (probably, the highest across long term investments) and if risks are evaluated critically, investors can improve their portfolio returns by 20-30%. It becomes imperative, therefore, to critically examine how much and where to invest. While building portfolios is relevant in this asset class as in the others, asset selection complexity is best demonstrated by an example.

## *The 'Airbnb's of India*

Once Airbnb started disrupting the temporary accommodation industry, the potential was noticed by investors and entrepreneurs alike and India saw 2 high potential startups emerge. Stayzilla was founded in 2010 with the objective of offering curated exotic homestays. With \$0.5 MM in angel funding, ~\$40MM in series A, B and C rounds, it counted 4 mn travelers as customers and 55,000 properties in its catalogue including places where there was no rail connectivity. Stayzilla started off as an online marketplace: offered a one-of-a-kind “Hybrid” marketplace aggregating options from the “structured” space such as hotels and options from the “alternate” stay segment under a single umbrella. It had an average room price of INR 1500 / night with 40 % bookings coming via mobile. It focussed almost entirely on the leisure traveller. Consequently, its traffic & consumer base were largely driven from both metros & tier 2 towns.

In fact, Tier 2 & long tail towns are the most popular destinations. For Stayzilla, customer acquisition was built on digital marketing. They went after ‘online’, cost- sensitive customers and offered deep discounts to acquire them. Ritesh Agarwal founded Oravel Stays in 2011. Soon, he realized the problem was not discovery but lack of standardization. Courtesy his Thiel Fellowship, he decided to think big and Oyo Rooms was born.

Not restricting himself to window-dressing and taking a remodel approach, his properties drove higher NPS. Oyo started as a hotel aggregator similar to Stayzilla but quickly pivoted to a franchisee model. There was an inherent lack of budget hotels and even those that existed were also priced very high. The model rests on the 3 pillars of standardization, affordability and convenience. For Oyo, the answer was a combination of mass media and digital marketing. More importantly, they focused on word of mouth to drive adoption. As the experiences were superior, they got a positive reference more often than Stayzilla.



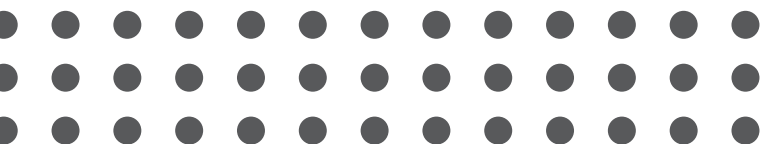
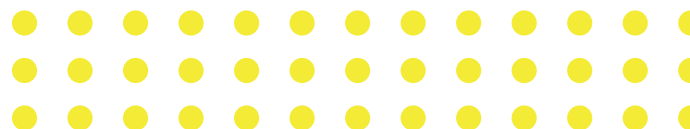
Today, Oyo has reduced its negative cash flow by 35%, has a positive Net Take Rate (a key metric for OTAs) and revenue has climbed 12x in 2 years. Stayzilla shut down in In 2017. Looking back, Stayzilla built the product top- down. The platform had features like predict booking confirmation rate, forecast demand, predict price, and optimize bids. It was perfect for an online-only product. But in a non-standardized space such as accommodation, this required and missed the equally, if not more important, offline features.

Service providers were screened before onboarding and each provided a standardized set of services. Oyo bought the room inventory, standardized supplies and trained the provider staff to give users a consistent look and feel. In the words of Stayzilla's founders:

“

*The travel marketplace does not have local network effects... we had to invest extensively in both sides of the marketplace... India does not have a lot of public goods... educating the market on the concept and even using Internet... discounting based growth”*

*“In the last 3–4 years, though, I can honestly state that somewhere I lost my path. I started treasuring GMV, room-nights and other ‘vanity’ metrics instead of the fundamentals of cash flow and working capital.*





## *The Risk-Return Evaluation Checklist*

The lesson in the above example for founders and investors alike is that continuous innovation in the business model and redefining the product to market needs is as critical as the initial idea, team and opportunity sizing. While the scientific formula is hard to develop, the following criteria emerge:

### *Product Market Fit, Timing & Ecosystem*

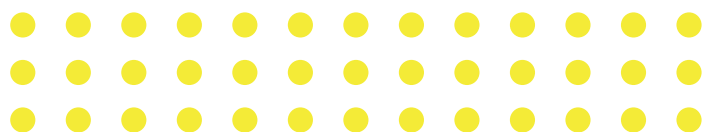
"An idea before its time is worse than a bad idea." Timing and supporting ecosystem are key reasons that could decide startup failure or success. Too early and your customers aren't ready, too late and the marketplace is already crowded. The potential of any startup is dependent on "innovative disruption" that it brings to the market and this further amplifies the need for right timing and a conducive ecosystem. Additionally, it is important to ensure that there is sufficient growth and space in the market that the startup is looking to operate it. Some of the key questions we delve into when evaluating product market fit, timing and ecosystem of a startup:

- *What is the social standing of the problem? Is the problem acknowledged & significant enough to command a new space?*
- *Does the product offer a differentiated net value? Does it stand out from competition?*
- *Is there a socio-political headwind that can interfere with business success?*

### *Ability to pivot & meet customer needs*

"The measure of intelligence is the ability to change". Flexibility and ability to embrace change / customer feedback is critical to success of a startup. When the rubber hits the road, and the market reception for the product that the startup intended to offer is rather weak, it is important for founders to let go of their egos (if any) and explore product / strategy changes as appropriate to present something that the market is looking for. Below are some of the key questions we consider when evaluating a startup's ability to pivot:

- *What are the customer reviews on the product MVP? Has the business incorporated the feedback?*
- *How has the product evolved from MVP? Is it the the direction the company intended or the customer indicated?*
- *Is the company able to make changes swiftly and at the right cost?*



## ***Founders and their grit***

"With all other things being equal, always bet on the jockey to take a good idea and make it better". While the idea may be great, lack of proven credentials and founder's grit could be detrimental to the success of a startup. Below are some of the key questions to consider:

- ***Opportunity cost: The stakes of the founders are not just the startup but also cushy jobs or businesses that they let go of. What is the cost for the team?***
- ***Does the team have all critical skills and yet adequate diversity in their thought to understand and address market needs? Can they work as a cohesive unit and will they be able to execute their vision?***
- ***Evidence of response in times of crisis***

## ***Adoption vs Burn Rate, Unit Economics and Valuations***

"As sustainable growth becomes the new mantra, investors are no longer satisfied with just the overall projection of a business." At its base, a company must invest its funds into activities like marketing campaigns and product development. Adoption and burn rates come into play here - how quickly are customers taking on the company's product and more importantly, at what cost to the company at a unit level - to understand the firm's current standing and layout the future roads it could take. Given that every startup sees tremendous learnings from a volatile market, and must adapt to new opportunities quickly, sound unit economics plays a crucial role. Especially for startups in the emerging markets where the fundraising cycles are longer and capital markets not as deep as ones in the developed countries - building a business on unsustainable unit economics is an alarm bell for any investor. We suggest looking at unit economics, break-even period, valuation and funding asks closely to decide if the business can scale.

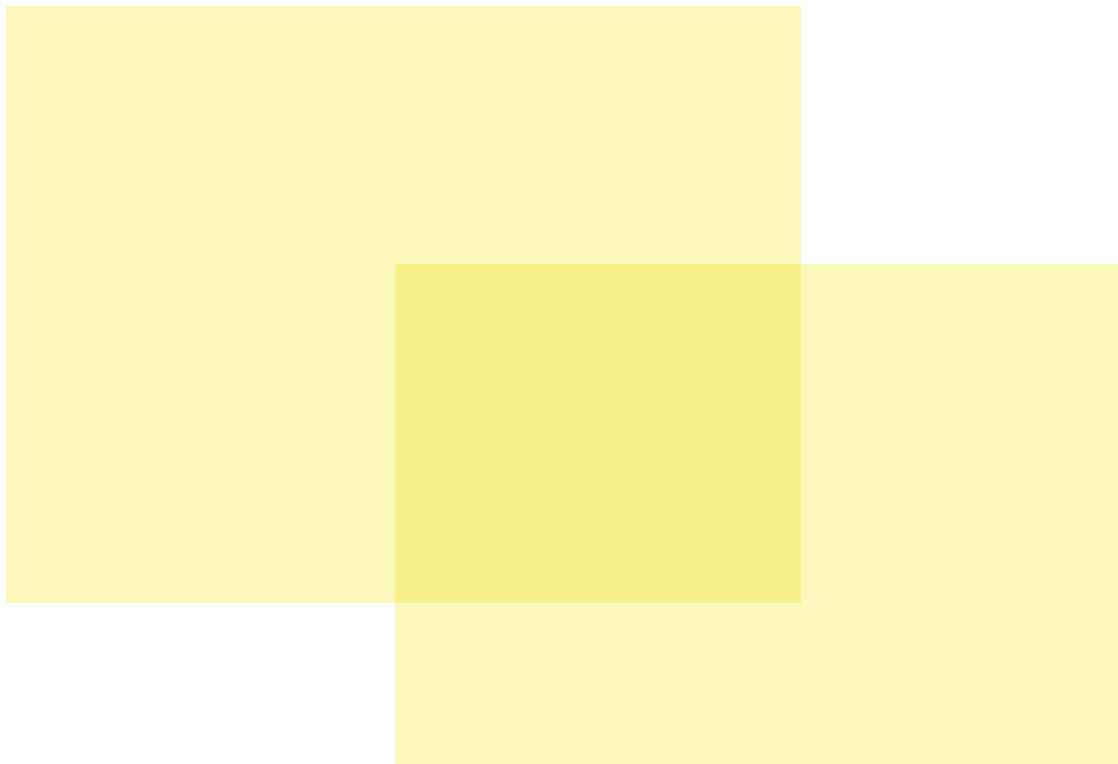
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- ***Is the company able to make changes swiftly and at the right cost?***



## *The ShiftAltCap Approach to Curation*

### *Parting thoughts*

Thematically, the answer to the investor question lies in spending time and investing domain experts in evaluating a startup before taking a decision to invest in the asset. There are multiple dimensions and a lot of assessment continues to be situational. Investors need a holistic framework that helps curate businesses with new products, underlying technologies and business models keeping in mind the context and the competition. The framework itself, requires participation from experts in the world of industry, the marketplace, legal, finance and operations. As investors think of building their portfolio of early-stage investments to reduce return variability and improve their chances of success, they will need to tap into their extended networks and build trust-ed teams to evaluate and subsequently, monitor their investments.

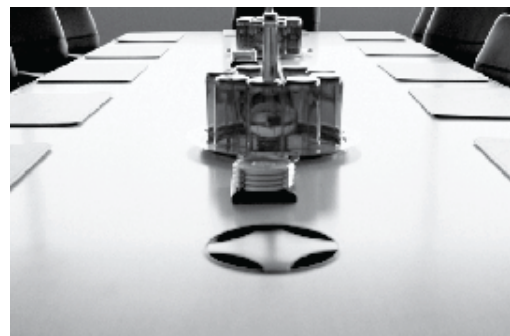




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