# Alternative Investment Industry

## Why in news?

Alternative investment solves the supply-side problems of mainstream investing by creating companies of scale that attract investors across the spectrum.

## What is an Alternative Investment?

- An alternative investment is a financial asset that does not fit into the conventional categories (stocks, bonds or cash)
- Private equity or venture capital, hedge funds, real property, commodities, and tangible assets are all examples of alternative investments.
- It creates diversification in an investment portfolio and act as a hedge against the movements of the traditional asset classes.
- **Key Characteristics of Alternative Investments**
  - Have high fees and minimum investments
  - Have lower transaction costs
  - Less liquid than conventional securities

> *Alternative Investment Fund means any fund established in India which is a privately pooled investment vehicle which collects funds from sophisticated investors( Indian or foreign), for investing in accordance with a defined investment policy for the benefit of its investors.*

## How about the alternatives industry in India?

- In India, the traditional three asset classes have been FDs, gold, and mutual funds.
- In 2012, SEBI introduced the Alternative Investment Funds (AIF) regulation to bring all investment funds under the regulatory oversight of SEBI.
- The alternatives industry in India is dominated by venture capital funds, private equity funds, hedge funds, venture debt funds and, now, special situation funds.
- The Indian alternatives industry has grown at a rapid pace of over 30% CAGR over the last 4-5 years, making it one of the fastest growing markets for alternative assets globally.
- The emergence of the Buyout Strategy has been one of the major drivers of hyper-growth in Indian PE/VC investments post 2015.
- A buyout is the acquisition of a controlling interest in a company and is used synonymously with the term acquisition.
- For a country that aims to grow to a 5 trillion dollar GDP by 2025, the alternatives and the innovation economy are expected to contribute 1 trillion dollar to this goal.

# What steps have been taken to boost the alternatives?

- The Government's focus on improving the ease of doing business has helped buyouts become more manageable. The measures include
  - The Insolvency and Bankruptcy Code (IBC)
  - Corporate tax reforms
  - GST
  - Streamlining of the labour codes
- Continuing liberalisation of the FDI regime across a wide range of sectors has boosted India's image as a preferred destination for foreign investment.
- These in conjunction with policies such as Make in India, PLI scheme, REITs, InvITs etc. are attracting large global capital pools to increase their allocation towards the Indian market.
- In Budget FY23, the government has announced the creation of an expert committee to conduct a holistic examination of frictions that affects the private equity and venture capital industry.
- The Indian government is also viewing the PE/VC model as a means of allocating capital to important sectors through market-determined means.

# What reforms can be suggested?

- **Increasing retail participation**- SEBI can consider reducing the minimum investment amount to increase retail participation and increase investment in AIF industry.
- Increasing retail participation could generate additional avenue for retailers to earn higher-than-equity returns.
- **Increasing Maximum Number of investors**- SEBI can ease the limit on maximum number of investors that can participate in a scheme.
- This will help in generation of higher AUMs under each scheme, resulting in greater investment amounts.
- **Increasing transparency-** The SEBI shall introduce regulations to increase the transparency of operations of AIFs to assist investors to make better decisions and to confidence of investors.
- **Providing Tax Advantages**- The SEBI could provide tax advantages or tax deductions to investors in a bid to scale up investment in AIFs.
- This would aid in diversifying investments in multiple asset classes and boosting multiple financial areas.

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