



# “A STUDY ON ALTERNATIVE INVESTMENTS FUNDS IN INDIA”

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## **Abstract:**

*This study delves into the realm of Alternative Investment Funds (AIFs) in the Indian financial market. It offers a comprehensive analysis of their growth, performance, and investor preferences. The research employs a questionnaire survey to gather primary data on investor perceptions and experiences with AIFs. The data is analyzed using statistical tools and presented through graphs to highlight key findings. The paper explores the concept of AIFs, their regulatory framework in India, and their significance in boosting the nation's economic landscape. It then dissects various categories of alternative investments, including hedge funds, private equity funds (leveraged buyouts and venture capital), real estate, commodities, gold, art, and collectibles.*

*Keywords: Alternative Investment Funds (AIFs), Indian financial market, investor preferences, performance analysis, risk-adjusted returns, private equity, venture capital, real estate, hedge funds, commodities, gold, art.*

## **Introduction:**

Alternative investments, in the broadest sense of the word, are investments that fall outside the traditional asset classes that retail investors are most familiar with, such as cash, stocks or bonds. Such definitions include investing in capital assets, such as real estate or goods, or quality goods, such as works of art or wine. But the alternative for this report is that it has historically used a private fund structure and only wealthy individuals and companies have access. Alternatives will span multiple asset classes, including real estate and private equity infrastructure, secondary funds, and private debt funds. This report will specifically focus on three asset categories: private equity, corporate and investments. Historically these three played an important role in the development of the industry and made significant contributions to the capital invested in.

This research paper provides a comprehensive analysis of the performance of alternative investment funds in India and evaluates risk-adjusted returns, volatility and other indicators for different categories and investment strategies. It provides insight into the factors affecting the performance of AIFs and provides a perspective on the future of the industry. The findings of this study can help investors, fund managers, policy makers and industry experts make decisions and formulate strategies for investing in AIFs. Alternative real estate investments in the broadest sense of the word are non-traditional.

## LITERATURE REVIEW:

- ❖ **"Alternative Investments in India: An Empirical Study" by A. Venkata Subrahmanyam (2018):** This study explores the performance and growth of alternative investments in the Indian market. It provides a comprehensive analysis of the landscape of alternative investment funds (AIFs) in India. The study likely explores various aspects such as the regulatory framework, investment strategies, performance, and challenges faced by AIFs in the Indian market. It may also delve into the impact of AIFs on the overall investment ecosystem and their role in diversifying investment portfolios. The empirical findings in the study likely shed light on the growth trajectory and potential opportunities for AIFs in India, offering valuable insights for investors, policymakers, and industry practitioners.
- ❖ **"Private Equity and Venture Capital in India: Emerging Trends" by Rajesh Chakrabarti (2016).** It discusses the development and trends of private capital and investments in India. It provides an in-depth overview of the private equity (PE) and venture capital (VC) sectors in India, focusing on emerging trends in the industry. Possible mechanisms to regulate the private sector and investment projects in India, including the role of regulatory bodies such as the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). In this section, attention can also be paid to the influence of management. Industrial development reform is analyzed. This assessment can highlight the economic impact of private capital and investments in India, including their role in promoting entrepreneurship, stimulating innovation, creating jobs, and contributing to economic growth and development.
- ❖ **"Regulatory Framework for Alternative Investment Funds in India" by Roshan Kantharia (2019).** Examines the regulatory environment and its impact on AIFs in India. It starts by providing an overview of the historical development of regulations governing AIFs in India. This could include the introduction of AIF regulations by the Securities and Exchange Board of India (SEBI) and subsequent amendments to enhance regulatory clarity and investor protection. It discusses the investor protection measures embedded within the regulatory framework for AIFs, such as mandatory disclosure of investment strategies, risk factors, and fee structures in offer documents. It might also analyze the role of SEBI in monitoring AIF activities to safeguard investor interests.
- ❖ **"Performance Evaluation of Hedge Funds in India" by P. Aruna (2015)** Analyzes the performance of hedge funds in the Indian context. It offers a comprehensive literature review that synthesizes existing research and provides insights into the performance dynamics, challenges, and opportunities within the Indian hedge fund industry. It delves into the risk management practices adopted by hedge funds operating in India. This could include discussions on portfolio diversification, hedging strategies, leverage management, and the mitigation of specific risks such as market, credit, and liquidity risk. Top of Form
- ❖ **"Private Investments in India: An Analysis", P. Paramasivam (2017)** Provides information on the dynamics and performance of private equity investments in India. Global private equity (PE) continues to grow at levels not seen in the last two decades as investors tap into the potential of the companies they finance. The aim of this research is to explain the factors that lead to venture capital investments in target companies. The current survey, conducted with a sample of investors, is limited and unstructured. These definitions differ and refer to uncertain results in the existing literature. To determine the empirical framework for private equity investments, understand existing gaps in the literature, and guide future studies, the authors conduct a systematic literature review of private equity investment research. The results raised open questions in the private equity literature focusing on the factors that drive investment decisions and lead the majority of people to choose investment companies and their subsidiaries. This research also recognizes a link between private equity and investment decisions regarding mergers and acquisitions and therefore extends the research with empirical studies on the determinants of mergers and acquisitions. It creates the research database and highlights gaps in the relevant literature regarding gender equality.
- ❖ **"Alternative Investment Funds in India: Challenges and Opportunities" by Priyanka V. Desai (2018)** Explores the challenges and opportunities in the AIF sector in India. The literature review identifies potential opportunities for AIFs in India despite the challenges. This includes the growing demand for alternative investment strategies, opportunities in niche sectors such as real estate, infrastructure, and startups, and the potential for AIFs to fill financing gaps in the Indian economy. It may discuss investor perspectives on AIFs, including their risk-return preferences, expectations, and the role of AIFs in providing access to unique investment opportunities. This section may also highlight the importance of investor education and awareness-building efforts by AIF managers.

- ❖ **"Venture Capital in India: A Comprehensive Review" by Ankur Agarwal (2016):** Offers a comprehensive review of the venture capital landscape in India. It begins with an introduction to the concept of venture capital, explaining its role in funding early-stage and high-growth potential startups. It could also provide an overview of the venture capital ecosystem in India, including key players, investment trends, and regulatory framework. It traces the historical evolution of venture capital in India, highlighting key milestones, major investments, and the development of venture capital firms and networks in the country. The review explores the role of venture capital in fostering innovation and entrepreneurship in India. It provides a thorough literature review that offers valuable insights into the dynamics, challenges, and opportunities within the venture capital industry in India.

### Objective of the study:

- To Examine Investor Behavior
- To Explore Market Trends
- To Understand Risk and Return Profiles
- To Analyze Performance
- To Investigate ways of Fundraising and Capital Deployment
- To Contribute to Academic Knowledge.

### Research methodology:

Research Methodology is a way to systematically solve the research problems. It may understand as a science of study how research is done scientifically.

**Primary Data:** A research design is purely and simply the framework of plan for a study that guides the collection and analysis of data. Primary data-collected through structured questionnaire will be done.

Analysis tool will be used:

- Percentage
- Graphs & charts
- Table forms

**Second level:** Secondary data and information are collected and easily found elsewhere. Obtaining such data is cheaper and faster than primary data and can be obtained even when primary data is not available at all. Here is the secondary source of information. • Newspapers, News channels, internet-websites, magazines, books-libraries, other projects.

### DATA COLLECTION DESIGN

Sample Design is a definite plan to obtain a sample from the sampling frame. The method which is adopted by the researcher in selecting the unit of sampling from the population is called sampling design.

**Population Size:** It represents how many candidates have chosen to fill up our questionnaire.

**Population size: 750**

**Sample size: 400.**

Vadodara: 180

Anand: 23

Indore: 84

Kota: 21

Mumbai: 56

Surat: 36

### Method of Data Collection: -

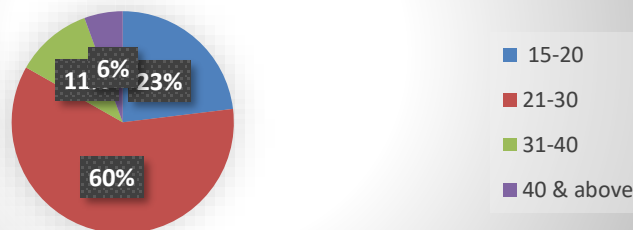
The data was collected using questionnaire from professionals/Common man like those who prefer to invest in alternative investment funds and other Investment option.

### DATA ANALYSIS AND INTERPRETATION

#### 1) Age wise Distribution of Respondent

Age of Respondent	Number of Respondent	Percentage
15-20	92	23%
21-30	240	60%
31-40	44	11%
40 & above	24	6%

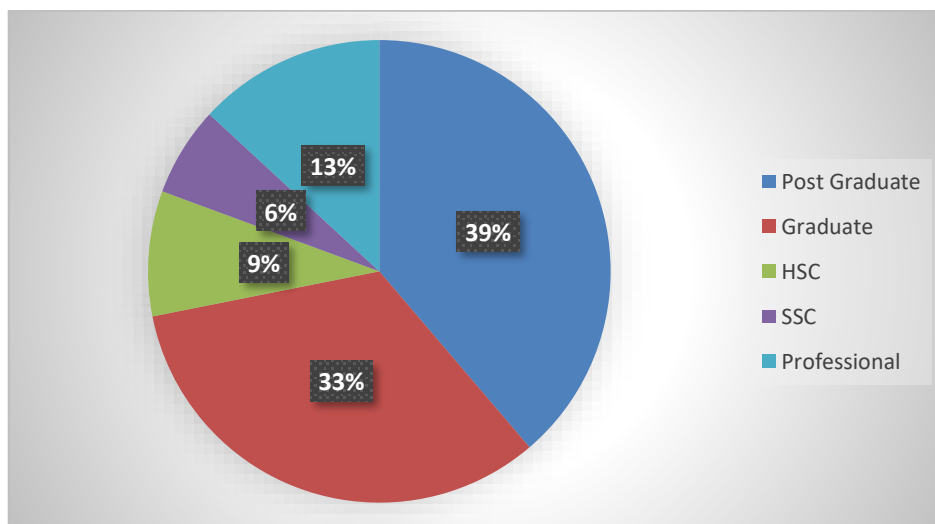
## Age Wise Distribution of Respondents



**Interpretation:** Being investors it is important to consider their age because with investment time factor, risk and return also needs to be considered. As investors they try to achieve return where they can use their return from investment at a right time. So here it is categorized into different age groups. From the total percentage majority group age belongs to 21-30 years and it is 60% and 23% belongs to 15–20-year age group, 11% belongs to 31-40 age group, and 6% from the age group of 40 & above.

### 2) Education wise Classification of respondents

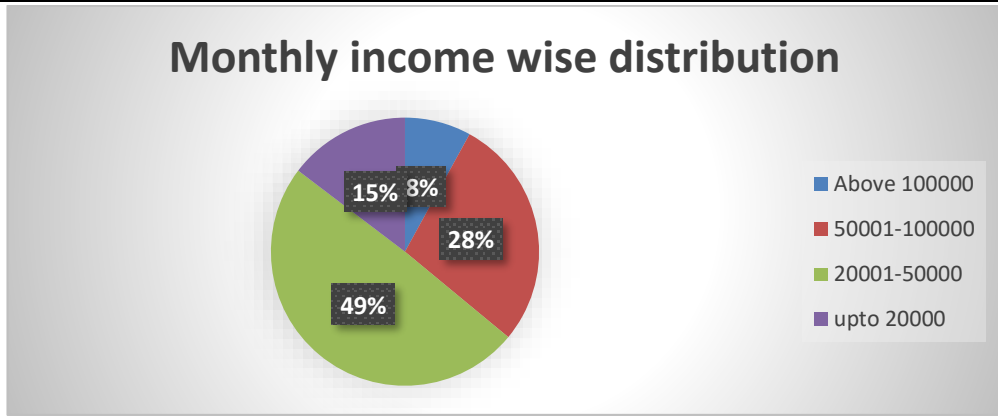
Education	frequency	percentage
Postgraduate	128	39%
Graduate	114	33%
HSC	72	9%
SSC	26	6%
Professional	60	13%
<b>TOTAL</b>	<b>400</b>	<b>100%</b>



**Interpretation:** From the above data it is derived that majority of respondents have education up to post graduation and then those who are graduate. In a study we are trying to analyze that how this level of education affected to the investment decision making of investors. Awareness plays an important role so it's not necessary that those who are highly educated have the depth knowledge about every sectors. In the chart it shows that 39% respondents have post-graduation degree, 33% respondents have graduation degree, 9% respondents have education of HSC, 6% have education till SSC.13% have professional degree.

### 3) Monthly Income-wise Classification of Respondents

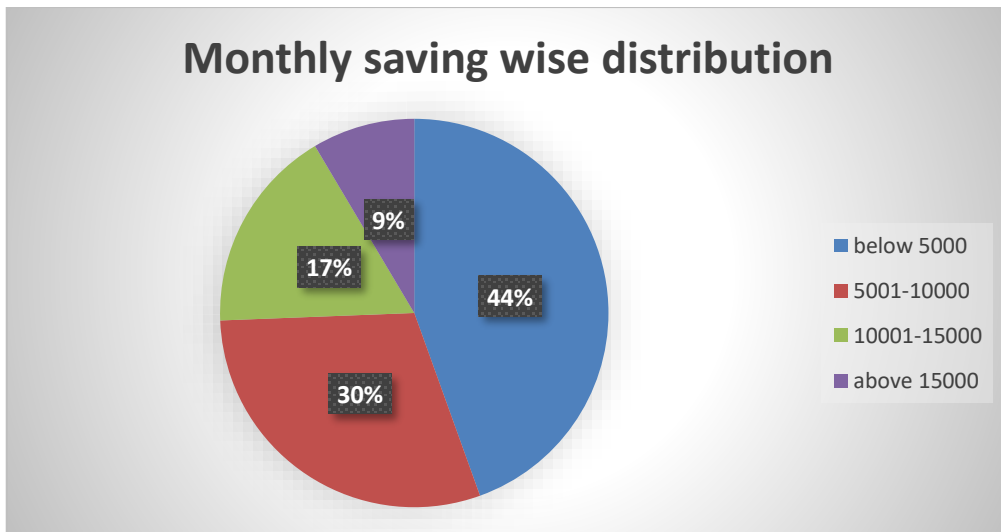
MONTHLY INCOME	FREQUENCY	PERCENTAGE
Above 1,00,000	32	8%
50,001-1,00,000	112	28%
20,001-50,000	196	49%
Up to 20,000	60	15%
<b>TOTAL</b>	<b>400</b>	<b>100%</b>



**Interpretation:** Income has direct relation with investment. More income influences the more investment because investment is part of the investment. Here in chart, it is categorized in to four different slabs.15% respondents have income up to Rs. 20000, 49% respondents have income between Rs.20001 to Rs.50000, 28% respondents have income between Rs. 50001 to Rs.100000 and remaining 8 % respondents have income above Rs. 100000.

**4) Monthly Saving-wise Classification of Respondents**

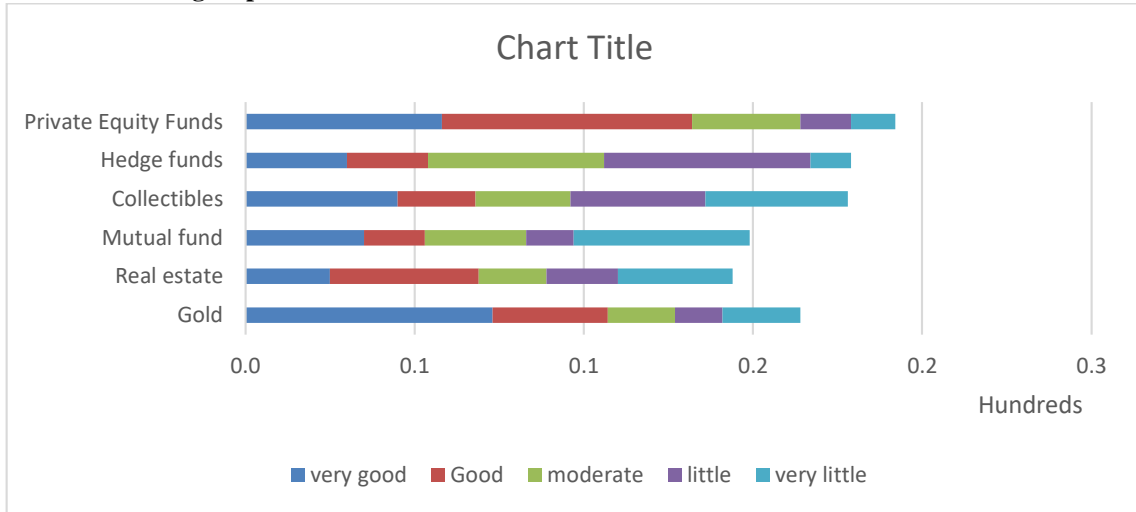
Monthly savings	Frequency	Percentage
Below 5000	176	44%
5001-10000	120	30%
10001-15000	68	17%
Above 15000	36	9%
<b>TOTAL</b>	<b>400</b>	<b>100%</b>



**Interpretation:** From the above chart it is derive that majority of the respondents invest below Rs.5000 and there are less no of respondents who invest more than Rs.15000. 44% respondents investing below Rs.5000, 30% respondents investing between Rs.5001 to Rs.10000, 17% respondents investing their monthly income between Rs.10001 to Rs.15000 and remaining 9% respondents investing above Rs. 15000.Saving and investment is based on the income and responsibilities of the person have even earning family members can also makes the difference in selection of the investment avenues.

# ANALYSIS OF INVESTMENT RELATED INFORMATION OF

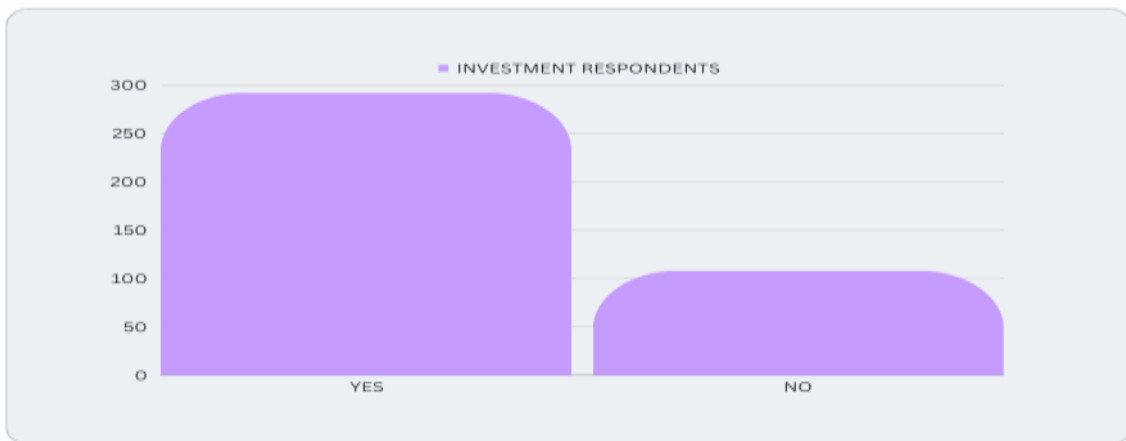
## 5) Level of awareness among respondents about various investment avenues.



**Interpretation:** Chart shows the level of awareness among the different investment avenues so here respondents are mainly more having awareness about private equity funds and hedge funds and about gold or gold ETF. Moderately aware about real estate, mutual funds, and real estate.

## 6. Do you invest your money?

Investment	frequency	percentage
YES	292	73%
NO	108	27%
<b>Total</b>	<b>400</b>	<b>100%</b>



**Interpretation:** In recent time it is very much needed to make an investment for the safety and security of the future. Small investment makes future brighter and safe in terms of investment, so it is very much needed to meet the uncertainty of life. In above chart majority of the respondents invest their money. From the above graph it is clear that 73% of the respondents invest their money and the rest of the 27% of the respondents do not invest their money. There are many reasons for not to invest money like lack of funds people those who fulfil all need of their family might not have enough fund to invest then not willingness for the investment or may be not having proper knowledge and awareness about the investment.

## 7) Do You Currently Invest in Traditional Assets Like Stocks and Bonds?

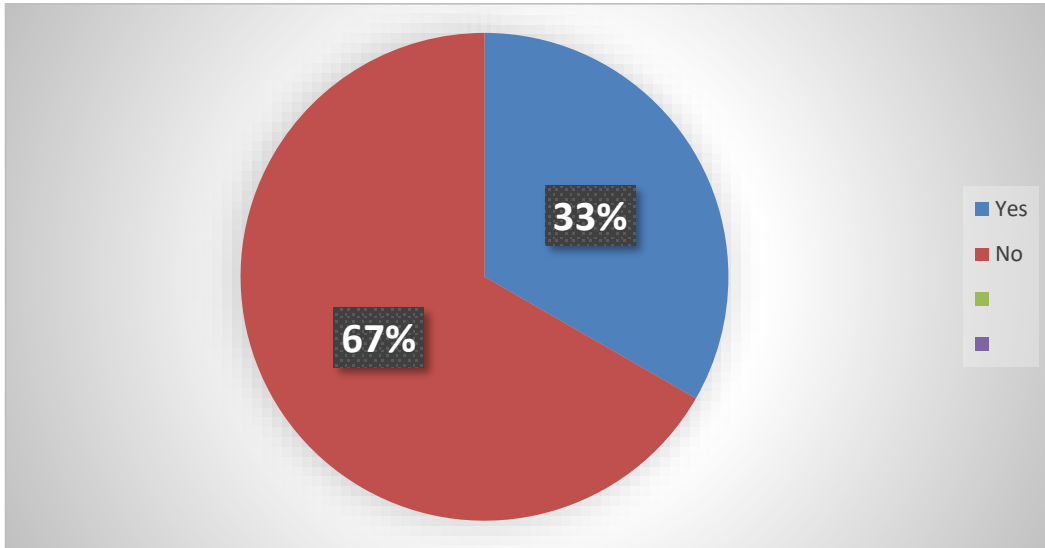
Option	Respondent Option	Percentage
Yes	224	56%
No	176	44%



**Interpretation:** The above graph shows the distribution of data of respondents who are currently investing their money in traditional assets like stocks and bonds or not. From the graph it is clear that 56% of the respondents invest their money in traditional assets and 44% of the respondents do not invest their money in the traditional assets.

**8) Have You Ever Invested in Alternative Investment?**

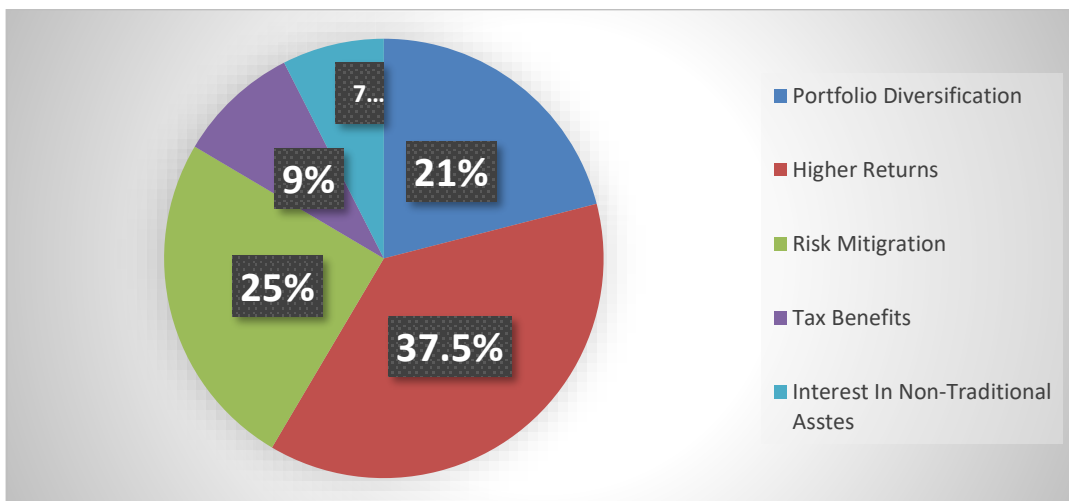
Option	Respondent Option	Percentage
Yes	132	33%
No	268	67%



**Interpretation:** For this research paper it is necessary to know about the respondent’s investments in alternative investment funds. The pie chart shows the information of the respondents who invest in the alternative investment funds in India. 132 respondents (33%) have invested in alternative investments funds and 268 respondents (67%) have invested in alternative investment funds. Through this we can know about the respondent’s knowledge on alternative investment funds in India.

**9) What Is Your Primary Motivation for Considering Alternative Investment?**

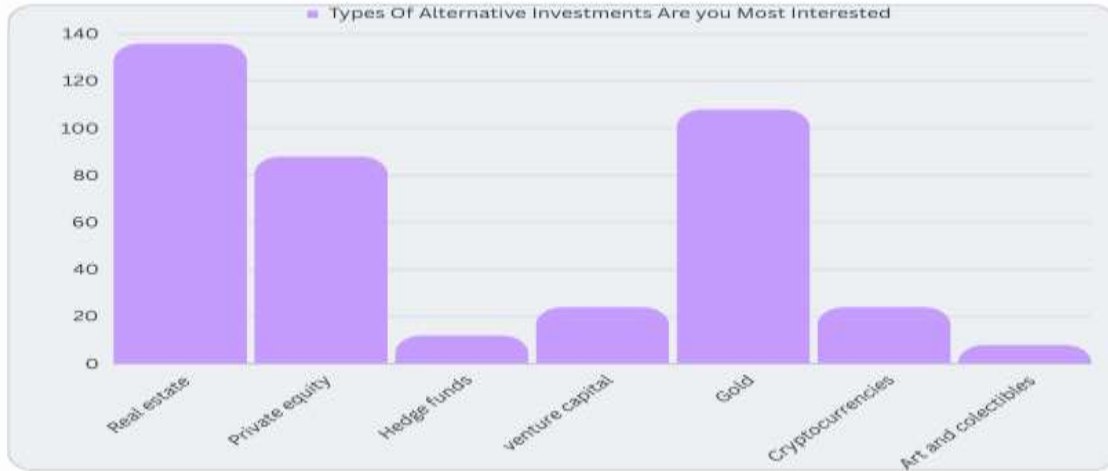
Option	Respondent Option	Percentage
Portfolio Diversification	84	21%
Higher Returns	150	37.5%
Risk Mitigation	100	25%
Tax Benefits	36	9%
Interest In Non-Traditional Assets	30	7.5%



**Interpretation:** It is necessary to consider the motivation of the respondents to invest in the alternative investment funds in India. Here are some of the factors which influence or motivate the respondents to invest in the alternative investment funds, The pie chart shows the distribution of the same. Portfolio diversification motivates 21% of the respondents, higher returns motivate the maximum number of the respondents 37.5%, risk mitigation factor motivates 25% of the respondents, 9% of the respondents are motivated by the tax benefits factor and the interest in the modern investments factor motivates 7.5% of the respondents.

10) Which Types of Alternative Investments Are You Most Interested In?

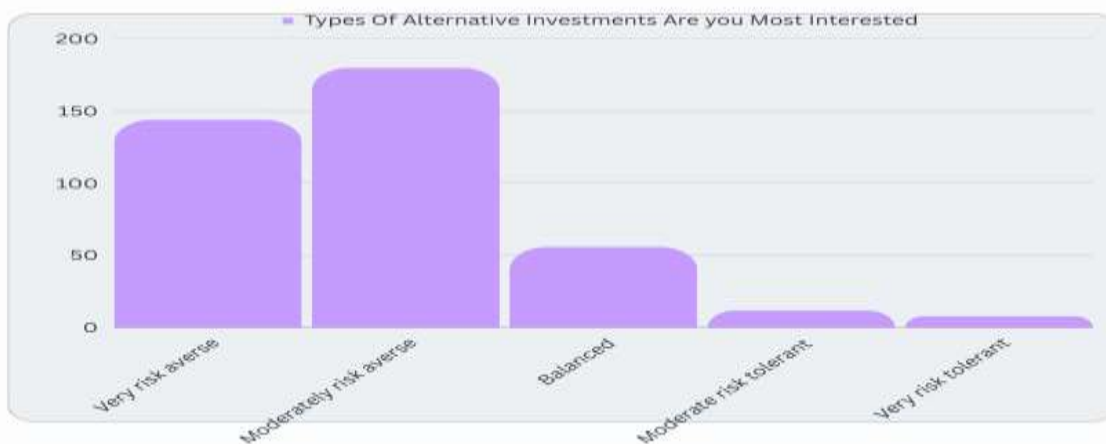
Option	Respondent Option	Percentage
Real Estate	136	34%
Private Equity	88	22%
Hedge Funds	12	3%
Venture Capital	24	6%
Gold	108	27%
Cryptocurrencies	24	6%
Art And Collectibles	8	2%



**Interpretation:** There are various types of alternative investment funds so it is necessary to know about the perspective of respondents about which types of alternative investment are they interested in. from the graph it is clear that maximum respondents are interested in the real estate that is 34%, then the respondents are interested in gold that is 27%, the respondents interested in private equity fund are 22%, the respondents who are interested in hedge funds are 3%, venture capital interested respondents are 6%, the respondents interested in cryptocurrencies are 6%, the respondents interested in art and collectibles are 2%.

11. How Would You Describe Your Risk Tolerance When It Comes to Investment?

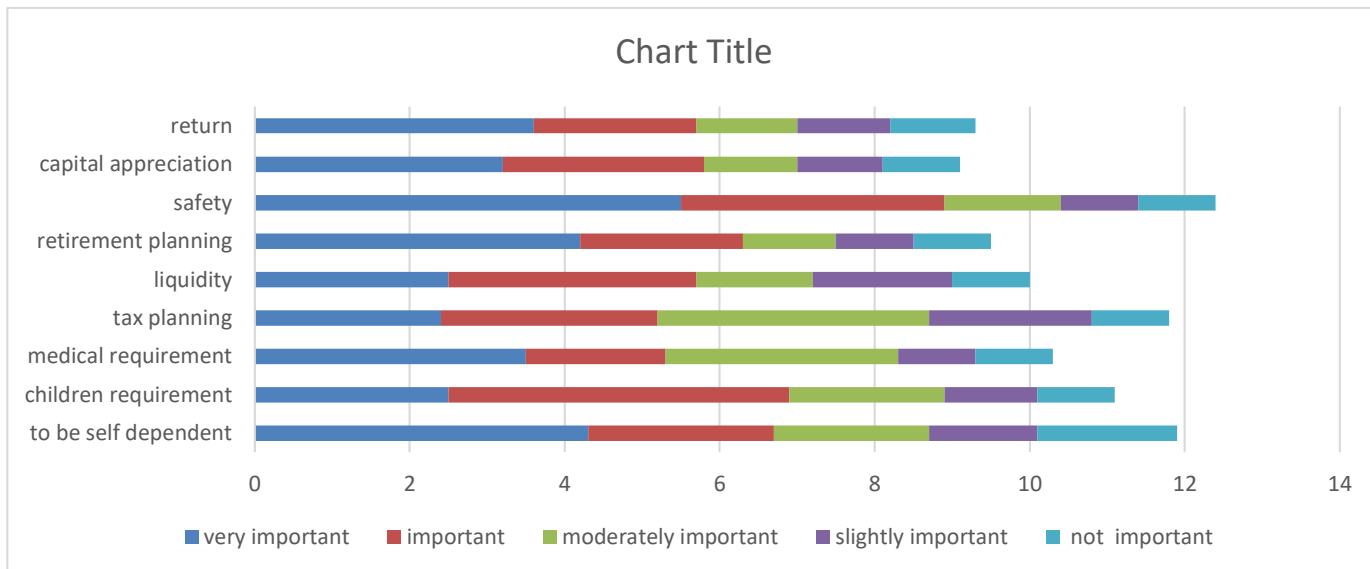
Option	Respondent Option	Percentage
Very Risk-Averse	144	36%
Moderately Risk-Averse	180	45%
Balanced	56	14%
Moderate Risk-Tolerant	12	3%
Very Risk-Tolerant	8	2%



**Interpretation:** Risk is the important factor to be consider while investing money. The risk tolerance of the respondents has impact on their investment. The respondents with very risk averse are 36%, the respondents with moderately risk averse are 45%, the respondents with balanced risk tolerance are 14%, the respondents with moderate risk tolerance are 3% and the last very risk tolerance respondents are 2%.



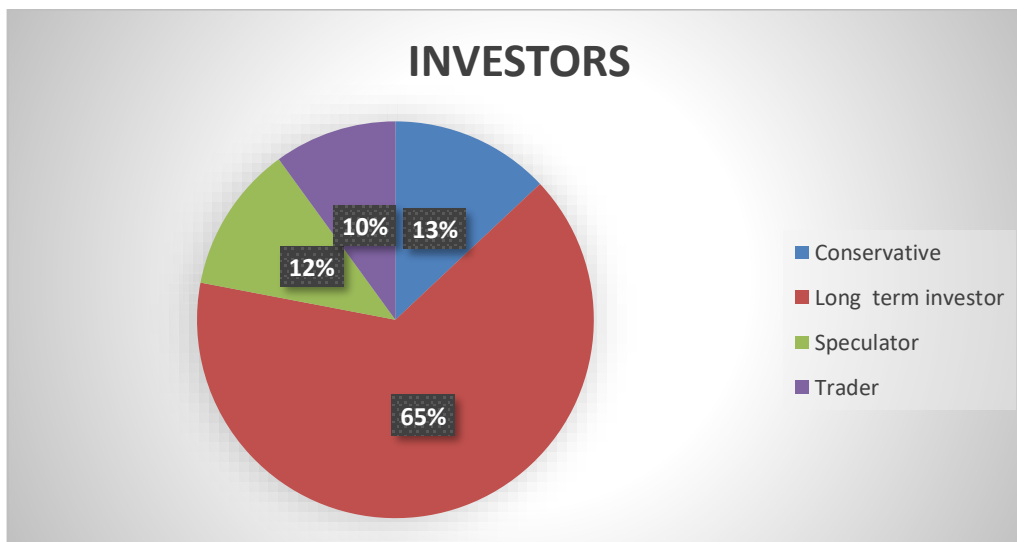
### 12. Level of importance for Respondent’s Investment objective



**Interpretation:** Investment objective is the important for the investment decision here in the study it is found that main objectives are to get safety from the investment and to be self-independent and apart from them to get capital appreciation, return is also the important objective for the investment. So here it is clear with the analysis that women always prefer safe investment. Liquidity, children education, and medical requirement are also the other objectives which respondent consider while making the investment. Purpose of the study lays an important in investment decision making because as per the requirement and needs investors select their investment avenues so that they can fulfil their investment objectives, and which leads them to boost for more investment. So, investment objectives are very much important to clarify the needs and requirement and easily make decision regarding investment.

### 13. What kind of investors you are?

Investors	Frequency	percentage
Conservative	52	13%
Long term investor	260	65%
Speculator	48	12%
Trader	40	10%
<b>TOTAL</b>	<b>400</b>	<b>100%</b>



**Interpretation:** After the tenure and frequency of the investment or with that it’s also needed to know the type of investors. Here researcher have divided in to 4 different type conservative means those who are not ready to accept the change easily, while long term investors means who are ready to block their money for more than 5 years, speculator are the those investors who accept the change quickly if they found benefit or good return then don’t feel hesitate to change their investment portfolio, and trader are the investors those who investment for the trading and get something in the return.in above chart its derive that 65% respondents that means majority of the investors block their money for longer time period.13% respondents are speculator, 12% respondents are conservative in nature and last 10% respondents are trader type investors

## 8. FINDINGS

- It has found that alternative investments often have low correlation with traditional assets classes. This can help spread risk and enhance portfolio diversification.
- Some alternative investments have potential for higher returns compared to traditional assets, especially in the long term.
- Certain alternative investments like hedge funds employ strategies designed to mitigate downside risk.
- Assets like real estate and commodities can serve as an inflation hedge.
- Real estate and certain other alternative assets can generate regular income through rent, dividends, or interest payments, offering a source of passive income.
- This comprehensive research paper analyzes alternative investments within the Indian context.
- It emphasizes emerging trends and challenges related to diverse alternative asset classes, including:
  - **Private Equity**
  - **Hedge Funds**
  - **Real Estate**
  - **Commodities**
  - **Cryptocurrencies**

- The paper discusses factors driving the adoption of alternative investments in India, such as uncorrelated returns and portfolio diversification.
- It also highlights hurdles faced by investors and fund managers, including regulatory complexities and limited investor understanding.
- Risk and return profiles are examined, providing insights into potential rewards and risks associated with unconventional assets.
- The evolving regulatory framework governing alternative investments in India is a central focus, including recent changes and implications.
- This study examines the structure and growth of AIFs in India since their introduction in 2012 by the Securities and Exchange Board of India (SEBI).

This research papers contribute significantly to discussions on effective portfolio diversification and risk management strategies, benefiting academics, practitioners, and investors interested in alternative investments in India.

## CONCLUSIONS:

Certainly! Here are the key points to conclude a research paper on **Alternative Investment Funds (AIFs) in India**:

1. **Growing Potential:** India's AIF industry has witnessed exponential growth in recent years, surpassing traditional investment avenues. However, its full potential remains untapped due to limited investor participation, primarily restricted to high-net-worth individuals (HNWIs) and institutional investors<sup>1</sup>.
2. **Regulatory Framework:** The Securities and Exchange Board of India (SEBI) introduced the SEBI (Alternative Investment Funds) Regulations, 2012, which expanded SEBI's oversight to cover various private funds, including real estate funds, hedge funds, and venture capital funds. These regulations aimed to create a comprehensive framework for governing different types of AIFs in India<sup>2</sup>.
3. **Complexity and Diversification:** AIFs offer diversification opportunities and access to exclusive investment techniques. However, they are complex financial products, suitable mainly for mature investors. Transparency and regular reporting are crucial factors to consider when choosing AIFs<sup>3,4</sup>.

In summary, while AIFs present an attractive way to diversify portfolios and potentially achieve higher returns, understanding their intricacies and adhering to regulatory requirements are essential for successful AIF investments in India.

In conclusion, this research has provided valuable insights into the landscape of alternative investment funds (AIFs) in India. Through a comprehensive analysis of regulatory frameworks, investment strategies, performance metrics, and market trends, several key findings have emerged.

Firstly, the regulatory environment governing AIFs in India has evolved significantly in recent years, providing greater clarity and flexibility for fund managers and investors alike. This has fostered increased participation and innovation within the alternative investment space, contributing to its growing prominence in the Indian financial ecosystem.

Secondly, alternative investment strategies such as private equity, venture capital, hedge funds, and real estate funds have demonstrated varying degrees of success within the Indian market. While certain sectors have seen remarkable

growth and returns, others have faced challenges related to market volatility, regulatory constraints, and economic factors.

Furthermore, the performance of AIFs in India has been influenced by factors such as fund size, investment horizon, sectoral focus, and the expertise of fund managers. Understanding these dynamics is crucial for investors seeking to optimize their portfolio allocation and manage risk effectively.

In conclusion, while AIFs present promising opportunities for investors seeking higher returns and portfolio diversification, they also entail inherent risks that must be carefully managed. By leveraging insights from this research and staying attuned to market dynamics, stakeholders can navigate the evolving landscape of alternative investments in India with confidence.

This study opens avenues for future research to delve deeper into specific aspects of AIFs, such as the impact of regulatory changes, the performance of niche investment strategies, or the role of emerging technologies in fund management. By building upon this foundation, scholars and practitioners can contribute further to the understanding and development of alternative investments in India and beyond.

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