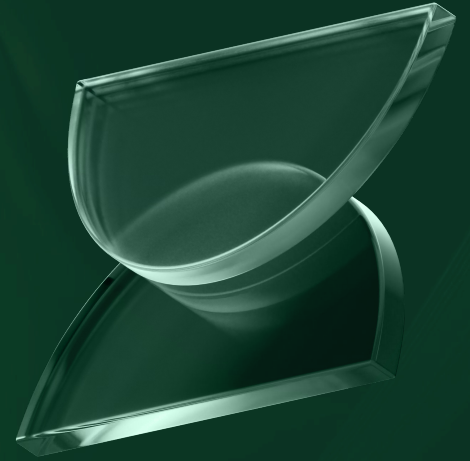


Begur Bulletin

Investment Funds

Whitepaper 2025

September, 2025



Managing Partner's Foreword

Welcome to this edition of the **Begur Bulletin**, where we strive to bring you insightful, relevant, and timely analyses on the legal and business developments shaping our industries today. At **Begur & Partners**, we take pride in our multifaceted expertise, which spans across multiple *"Focus Areas"* and a diverse range of *"Sectors"*, reflecting the depth of our practice established over three decades. In an ever-evolving global landscape, it is imperative to stay informed about the legal nuances and trends that impact businesses, individuals, and institutions alike. Through the **Begur Bulletin**, we aim to share not only our knowledge but also our perspective on these critical developments, empowering our readers to navigate challenges and seize opportunities with clarity and confidence.

Each **Begur Bulletin** is carefully curated to address pressing topics, offering deep analysis and insight that is not only legally sound but also practical and actionable. From corporate mergers to emerging technologies, our insights reflect our commitment to the pursuit of legal excellence and thought leadership in the legal domain. I invite you to explore this edition and reflect on the ideas shared within. As always, we welcome your feedback and look forward to continuing this dialogue with you, our esteemed readers, and hope to contribute to the ever-dynamic legal and business landscape.

Thank you for your continued trust and engagement.

Warm Regards,

Rajesh Begur

Managing Partner, Begur & Partners

White Paper

On

ALTERNATIVE INVESTMENT FUNDS

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BIRD'S EYE VIEW

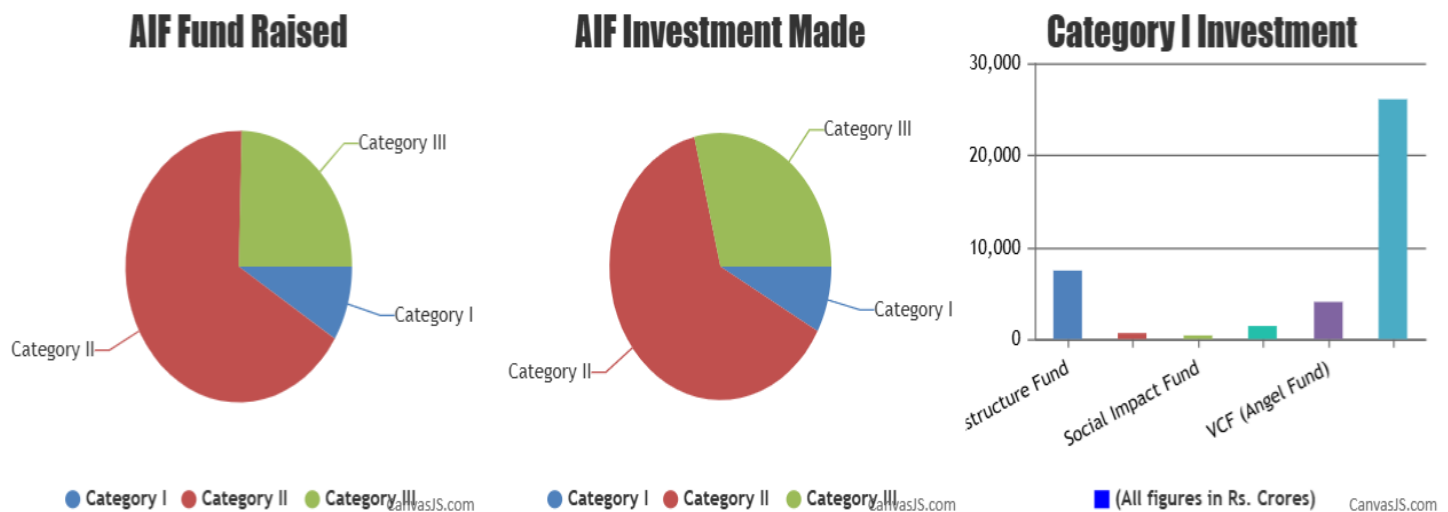
India's investment fund sector has witnessed remarkable growth in recent years, driven by increasing participation from both retail and institutional investors. As of December 2024, investment commitments in Alternative Investment Funds ("AIFs") have exceeded INR 1.305 trillion, with over INR 52,728 billion raised, of which more than INR 50,617 billion has been deployed for investments. By the end of the 2023-24 fiscal year, the cumulative net investment in AIFs increased to INR 4.07 lakh crore as compared to INR 3.38 lakh crore at the end of March 31, 2023.

Category I AIFs raised a total of over INR 8,468 billion in commitments, with over INR 4,684 billion in funds raised and over INR 4,057 billion invested. Category II AIFs raised over INR 100,267 billion in commitments, with over INR 35,077 billion in funds raised and over INR 31,976 billion invested. Category III AIFs raised over INR 21,764 billion in commitments, with over INR 12,966 billion in funds raised and over INR 14,583 billion invested.

Data on AIFs (December 31, 2024)			
Category of AIF	Commitments Raised	Funds Raised	Investments Made
Category I AIF	84,862	46,845	40,578
Category II AIF	10,02,672	3,50,774	3,19,760
Category III AIF	2,17,645	1,29,665	1,45,838

Source: Securities and Exchange Board of India ("SEBI") – Data on AIFs

Cumulative net figures as at the end of the quarter ending Dec 31, 2024



Source: Securities and Exchange Board of India ("SEBI") – Data on AIFs

NATURE OF DEPLOYMENT OF FUNDS BY AIFs

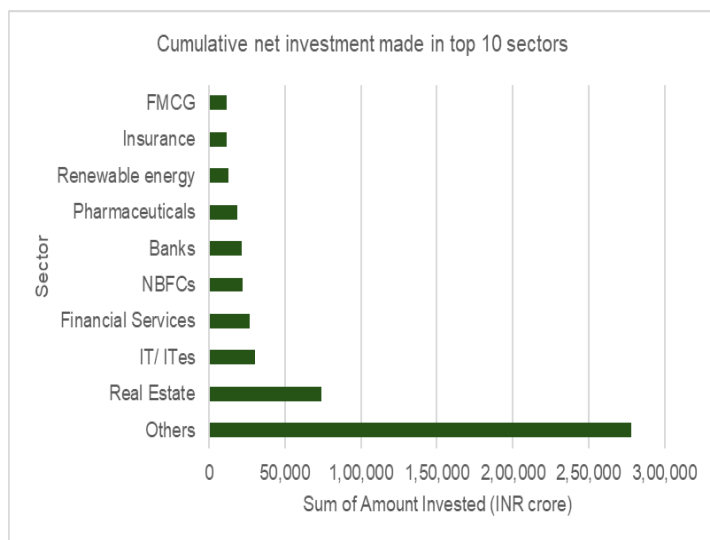
Sector-wise investments:

As seen in the chart below, the cumulative net investment made in top 10 (ten) sectors in which investments were made by AIFs were: real estate (INR 7,390 billion), IT/ITes (INR 3,027 billion), financial services (INR 2,680 billion), NBFCs (INR 2,192 billion), banks (INR 2,127 billion), pharmaceuticals (INR 1,830 billion), renewable energy (INR 1,274 billion), insurance (INR 1,155

billion), FMCG (INR 1,143 billion) and other sectors (INR 27,797 billion).

Instrument-wise investments:

As shown in the table below, AIFs deployed over 92.5% funds across three types of instruments: unlisted equity instruments & LLP interest, debt & securitized debt instruments, and listed equity at 42.3%, 28.17 and 22.1%, respectively.



Source: SEBI – Data on AIFs

Type of Instruments	As on March 31, 2023		As on March 31, 2024	
	Funds Invested	Share (%)	Funds Invested	Share (%)
Unlisted Equity Shares / Equity Linked Instruments / LLP Interest	1,40,108	41.5	1,72,334	42.3
Listed Equity (excluding Listed / to be listed on SME exchange)	66,351	19.6	89,880	22.1
Debt / Securitized Debt Instruments	94,568	27.9	1,14,348	28.1
Units of other AIFs	8,122	2.4	8,838	2.2
Liquid Funds	12,709	3.8	926	0.2
Listed/ to be Listed Securities on	0	0	1,371	1.166
SME Exchange	128	0.04	204	0.1
Others	15,996	4.8	20,517	5.0
Total	3,37,982	100.0	4,07,047	100.0

Source: SEBI Annual Report 2023-24 dated August 09, 2024

OVERVIEW OF REGULATORY FRAMEWORK

WHAT ARE AIFs?

AIF is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors. AIFs are governed by Securities and Exchange Board of India SEBI (Alternative Investment Fund) Regulations, 2012 ("SEBI AIF Regulations").

STRUCTURE OF AIF

As per the AIF Regulations, an AIF may be established or incorporated either in the form of a trust, a company, a limited liability partnership or a body corporate. Based on various considerations such as foreign investments, tax, compliance one needs to decide the investment vehicle. Set out below is a preliminary comparative analysis.

FORMS OF AIF

As per the AIF Regulations, an AIF may be established or incorporated either in the form of a trust or a company or a limited liability partnership or a body corporate. Based on various considerations such as foreign investments, tax, compliance one needs to decide the investment vehicle. Set out below is a preliminary comparative analysis:

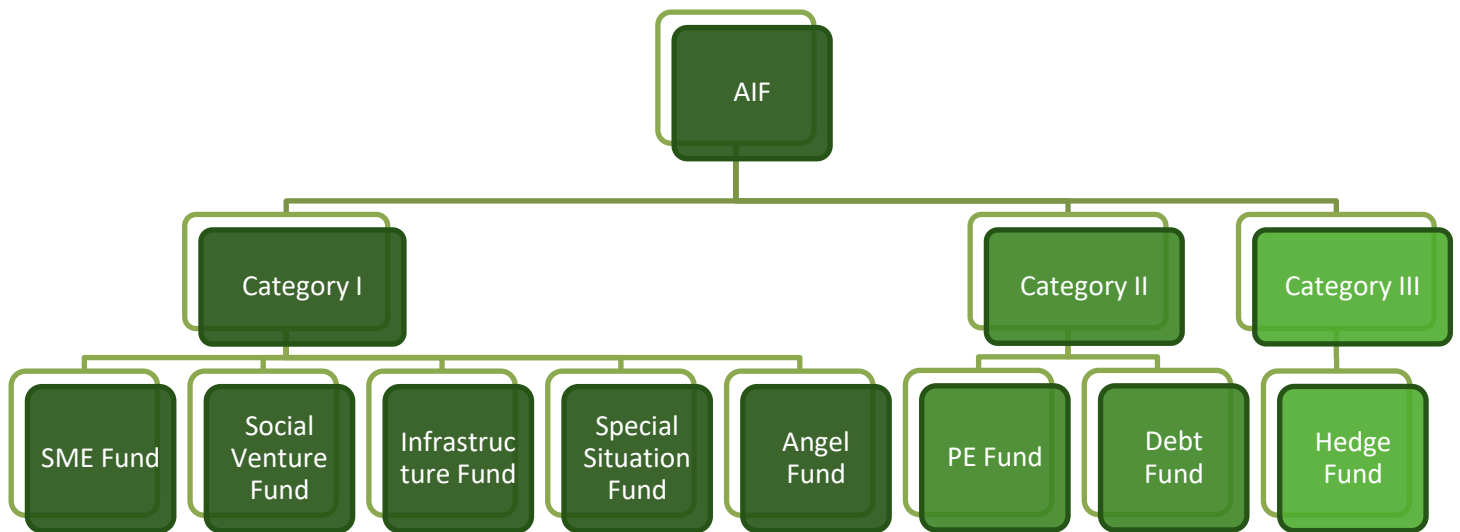
Parameter	Trust	Company	LLP
Governing Act	Indian Trust Act, 1882	Companies Act, 2013 or under the erstwhile Companies Act, 1956	Limited Liability Partnership Act, 2008
Meaning	‘Trust’ as an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.	Company incorporated under the provisions of Companies Act, 2013 or under the erstwhile Companies Act, 1956.	An LLP is a hybrid form of a corporate entity, prescribing limited liability for partners with flexibility of governing the rights and duties of partners as per the LLP agreement.
Managing Entities	Trustee	Board of Directors	Designated Partners
Regulatory Compliances	Low	High	Moderate
Winding Up	Simple	Complex	Moderate

CATEGORIES OF AIF

AIFs can be divided into three categories: Category I AIF, Category II AIF and Category III AIF.

- **Category I AIF:** Invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable.

- **Category II AIF:** Does not fall in Category I and III and does not undertake leverage or borrowing other than as permitted in AIF Regulations.
- **Category III AIF:** Employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, and includes funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other regulator.



GENERAL CONDITIONS ON AIFs

AIFs may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issue of units in dematerialized form subject to conditions as specified by SEBI from time to time.

Parameter	Category I AIF	Category II AIF	Category III AIF
Nature of fund	Close ended.		Open ended or Close ended.
Minimum Size / Corpus	INR 20 crore Note: For social impact fund - INR 5 crore.		
Maximum number of Investors	1000 investors per Scheme. Note: For AIFs formed as a company: provisions of Companies Act, 2013 applies.		
Minimum Investor Capital Commitment	<ul style="list-style-type: none"> For Investor: INR 1 crore. 		

Parameter	Category I AIF	Category II AIF	Category III AIF
	<ul style="list-style-type: none"> For employees or directors of the AIF and/or the Manager: INR 25 lakh. <p>Note 1: Does not apply to accredited investor.</p> <p>Note 2: For social impact fund investing only in securities of not-for-profit organizations registered or listed on a social stock exchange - INR 2 lakh.</p>		
Manager or Sponsor Commitment	Continuing interest amounting to 2.5% of the corpus or INR 5 crore, whichever is lower.		Continuing interest amounting to 5% of the corpus or INR 10 crore.
Minimum Tenure	3 years		-
Maximum Tenure	Not prescribed (Market practice: e.g. 7/9/12 years).		-
Extension of tenure	<p>The tenure can be extended up to 2 years with approval of 2/3rd of unit holders by value of their investment in AIF.</p> <p>Note: For a large value fund for accredited investors – tenure can be extended up to five years upon of 2/3rd of the unit holders by value of their investment.</p>		
Solicitation	Only by way of private placement.		
Listing on Stock Exchange	<p>Units of close ended AIF may be listed on stock exchange after final close of the fund or scheme subject to a minimum tradable lot of INR1 crore.</p> <p>Note: This is not applicable to open-ended Category III AIF.</p>		
Taxation	Pass through status has been accorded.		No pass through status has been accorded.

PERMISSIBLE INVESTMENTS

As per the SEBI AIF Regulations, AIFs are permitted to invest in the following instruments:

CATEGORY I AIF*

Investee companies**

Venture capital undertakings

Special purpose vehicles

Limited liabilities partnership

Units of Category I AIF of same sub category

Units of Category II AIF

CATEGORY II AIF

Investee Companies**

Units of Category I AIF

Units of Category II AIF

CATEGORY III AIF

Securities of listed investee companies**

Securities of unlisted investee companies**

Derivatives

Units of other AIFs

Dealing in goods recieved in delivery agianst commodity derivatives

* Sub-categories of Category I AIF, such as angel funds, SME Funds, Social Impact Funds have additional conditions/ restrictions.

** Investee companies means any company, special purpose vehicle or limited liability partnership or body corporate or real estate investment trust or infrastructure investment trust in which an AIF makes an investment.

INVESTMENT RESTRICTIONS

Parameter	Category I AIF	Category II AIF	Category III AIF
Maximum investment in one investee company	Shall not invest more than 25% of its corpus in one investee company directly or through investment in other AIFs. Note: For large value funds for accredited investors – this ceiling is up to 50% of corpus.		Shall not invest more than 10% of its corpus in one investee company directly or through investment in other AIFs. Note: For large value funds for accredited investors – this ceiling is up to 25% of corpus.
Investment in associate companies	Not permitted except with 75% of investor approval by value.		
Hedging	Allowed, including credit default swaps.	• Allowed	May buy or sell credit default swaps

Parameter	Category I AIF	Category II AIF	Category III AIF
		<ul style="list-style-type: none"> May buy or sell credit default swaps 	
Borrowing	<p>Only for the purpose of meet temporary funding requirements & day to day operational requirements, subject to following:</p> <ul style="list-style-type: none"> for not more than 30 days, on not more than four occasions in a year, and not more than 10% of corpus. <p>Note: In addition, Category I AIF can create encumbrance on equity of investee company engaged in infrastructure sub-sectors of Harmonised Master List of Infrastructure issued by the Central Government.</p>		Allowed subject to consent from the investors in the fund and subject to a maximum limit.

For more information on setting up funds in International Financial Service Centre (Gift City), regulations relating to Foreign Portfolio Investors, and other related topics, kindly visit www.begurs.com.



HOW CAN WE ASSIST

BEGUR & PARTNERS' prides itself for its exceptional legal, regulatory, and tax expertise in guiding clients through the life cycle of a fund. Our investment funds team is recognized for its trustworthy legal guidance and broad-based experience relating to all aspects of investment funds and asset management activities, including assessing risks and navigating the legal and regulatory labyrinth. Our team's experience with a broad spectrum of the industry gives us the advantage of staying current in an investment environment that is constantly evolving.

We have been trusted advisors to our clients and provided 360 degrees counsel to numerous clients by providing seamless structuring across diverse asset classes, entry strategy, setting up of entities, jurisdiction analysis, incentive structuring, regulatory approvals, documentation, and policies. We have project managed and acted as lead counsel to several cross-border and domestic funds, LPs, asset managers, institutional investors, government institutions, corporate institutions, sovereign funds, pension funds, and private banking institutions.

OUR CAPABILITIES

Fund Formation & Structuring	IFSC (Gift City)
Portfolio Management	Co-investment Arrangements
Governance & Legal Advisory	Migration of Domicile
FPI Structuring	Regulatory Compliances
Fund Documentation	REITs / InvITs / SSFs
Buyout of Funds	Mutual Fund

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Latest Awards and Recognitions

RSGI Resight (RSG India)

IBLJ A List
A List (2023-2024)

ALB India Law Awards 2025
Notable Firm (2024)

Legal 500
Private Equity (including Venture Capital) - Tier 5 (2025)

IFLR1000 (34th Edition) 2024

1. Rajesh Begur B Ranking: Leading Lawyer – Highly Regarded
2. Firm Ranking: Recommended Firm
3. Southern Asia, Australasia and Central Asia Ranking: Highly Regarded

Corporate INTL Global Awards

Cross Border Private Equity Transactions Law Firm of the Year in India - 2025

Forbes India – Legal Powerlist 2023

Top Law Firm (above 10 years' experience)

Asia Law 2022

Notable Firm – Private Equity, Investment Funds, Banking and Finance, Corporate and M&A

Global Law Expert 2021

Cross Border Private Equity Transactions Law Firm of the year

RSG Consulting 2019

Top 40 Indian Law Firm

