



To,
General Manager
Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan, Plot No. C4-A, G-Block,
Bandra Kurla Complex, Bandra (East),
Mumbai - 400 051

26th December, 2019

Via email to: aifreview@sebi.gov.in

Sub: CORRIGENDUM to Consultation Paper on Introduction of Performance Benchmarking and Standardization of Private Placement Memorandum for Alternative Investment Funds

Please find below a Corrigendum to our response sent on 24th December 2019

A. Details of our Organisation:

1. Name: Indian Association of Investment Professionals (CFA Society India)
2. Contact number: +91 98196 30042
3. Email address: advocacy@iaipirc.org
4. Postal address: 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Corrigendum on Suggestions/Comments for The Working Group Report:

Particulars of Issue 1, Serial Number 2, Rationale, Bullet e

“SEBI might want to refer towards **2020 GIPS Standards for pooled funds** ⁽¹⁾ (Real Estate and Private Equity Funds)”

Should read as

“SEBI might want to refer towards **2020 GIPS Standards for pooled funds** ⁽¹⁾”

Citations to GIPS, at the end of our suggestion should read as

1. 2020 GIPS Standards

<https://www.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-firms.ashx>

And all footnote references to GIPS in earlier response shall refer to the above link only

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org

Sincerely yours,

Rajendra Kalur, CFA
Director - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute



To,

24th December, 2019

General Manager

Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan, Plot No. C4-A, G-Block,
Bandra Kurla Complex, Bandra (East),
Mumbai - 400 051

Via email to: aifreview@sebi.gov.in

Sub: Consultation Paper on Introduction of Performance Benchmarking and Standardization of Private Placement Memorandum for Alternative Investment Funds

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON INTRODUCTION OF PERFORMANCE BENCHMARKING AND STANDARDIZATION OF PRIVATE PLACEMENT MEMORANDUM FOR ALTERNATIVE INVESTMENT FUNDS.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we would like to propose a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for investor protection.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the proposed initiatives by SEBI are mentioned below:

A. Details of our Organisation:

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
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- 3. Email address:** advocacy@iaipirc.org
- 4. Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Key Contributors:



Nalin Moniz, CFA	Priyank N Singhvi, CFA	Ashish Khattri, CFA	Niketh Vangala, CFA	Arvind Mathur, CFA
Archan Thakore, CFA	Mohan Prabhu, CFA	Abhishek Loonker, CFA	Shruti Agrawal, CFA	Shreenivas Kunte, CFA
Sivananth Ramachandran, CFA	Devan Furia, CFA	Om Jha, CFA	Soham Das, CFA	

C. Suggestions / Comments:

Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Particulars of Issue 1	Comments/Suggestions	Rationale
1.	3.2. "...need to provide a framework to benchmarking the performance of AIFs to be available for the investors and to minimize potential of mis-selling"	Though Internationally sharing of data for benchmarks is voluntary, this is a welcome step and highly desirable regulatory intervention	Owing to lack of standardization in offerings, a singly framework for benchmarking may not offer total clarity regarding the product AIF being a nascent industry is seeing its own fair share of mis-selling. To enable establishing of better practices and instill an improved way of comparing products across similar styles/strategies/size, benchmarking is necessary and welcome.
2.	3.4(a) "AIFs which are registered with SEBI for at least 3 years , to report their audited scheme-wise performance data to single/multiple Benchmarking Agencies (to be identified later), for benchmarking the individual fund's performance with the comparable industry performance"	This recommendation is highly welcome, but certain considerations have to be taken into account: 1. The time-line of 3 years should start from first closing rather than the date of Registration 2. Performance should be reported on a pretax, gross of total expense basis 3. Benchmarking agencies have enough data to form sector, strategy, style-based benchmarks for different vintages 4. Uniformity and consistency in valuation of unrealized gains from unlisted investments (Cat I, II)	a. AIFs actually start their investment activity only after first closing; therefore, timeline of 3 years should start from 1st closing rather than original registration. b. Also, certain AIFs may float new schemes from time to time, therefore the timeline for benchmarking may start 3 years after the first close of each scheme. c. Performance reported and compared based on this methodology would be comparable across different funds and different tax regimes d. Agencies should be encouraged to lean towards public market equivalents for CAT III funds. Benchmarking to broader market Indices, like Crisil Bond Fund Indices, NSE Nifty 50, BSE200 would simplify and make the evaluation transparent. e. SEBI might want to refer towards 2020 GIPS Standards for pooled funds ⁽¹⁾ (Real Estate and Private Equity Funds)

Sr. No.	Particulars of Issue 1	Comments/Suggestions	Rationale
3.	3.5(g) “...The industry performance benchmark(s) will be disseminated in a manner that is accessible to public”	Agree. Benchmark should be clearly explained and calculations should be transparent and explainable.	While AIF investors are presumed to be sophisticated, owing to the high minimum ticket size – there are many individuals for whom understanding the performance and assessing suitability will be a difficult job. A conversation around the benchmarks will help them assess the PPM better.
4.	3.5(h) “...Benchmarking Agency shall ensure that such performance benchmarking shall be based on objectively verifiable parameters like instrument of investment, tenure/vintage of the fund, focus sectors, etc.”	<p>Benchmark should be correctly constructed to take into account the differences in strategy and style</p> <p>SEBI can further look to extend existing MF categories to AIF as well:</p> <p>Category II AIFs:</p> <ul style="list-style-type: none"> • Real Estate • Structured Finance • Distressed Asset • Other Lending Oriented • Private Equity • Pre-IPO/IPO • Other Equity Oriented <p>Category III AIFs:</p> <ul style="list-style-type: none"> • Large Cap Equity AIFs • Mid Cap Equity AIFs • Small Cap Equity AIFs • Multi-Cap Equity AIFs • Sector Focused Equity AIFs • Thematic Equity AIFs • Opportunistic Equity AIFs • Equity Long Short AIFs: High Net Exposure (minimum 65%) • Equity Long Short AIFs: Low Net Exposure (maximum 65%) • Commodity AIFs • Debt Oriented AIFs • Multi-Asset AIFs 	<p>It is important to create economically meaningful classifications under each of the 3 official categories of AIF. The biggest issue arises in category 2 and 3 which have the widest range of risk/return profiles for fund types.</p> <p>The classification of Category II AIFs has been done basis the different kinds of debt and equity investing presently being done with a catch-all for new fund types.</p> <p>The classification of Category III AIFs has been done using the model of mutual fund SEBI scheme classifications for long-only equity funds. For equity long-short funds, the primary distinction is between high net and low net-oriented funds since the classification criteria has to be externally auditable. We have also made provisions for Commodity, Debt Oriented and Multi-Asset AIFs to round out the list.</p>



Sr. No.	Particulars of Issue 1	Comments/Suggestions	Rationale
5.	3.5 (l) “Performance Benchmarking shall be on a half yearly basis”	Frequency of valuations and subsequent calculations have to vary according to nature of the AIF product.	<p>Owing to different classes of AIFs, and the relative ease of valuation, different valuation frequencies should be adopted, eg. For CAT I & II (AUM < 500 cr) - yearly, For CAT I & II (AUM > 500 cr) – Half yearly, for open ended CAT III monthly, and for close ended CAT III – quarterly.</p> <p>Since CAT I & II funds have investments in unlisted securities for which performance would be based on valuation, it is suggested that the frequency is kept yearly for CAT I & II AIFs which have an AUM < 500 Cr. This would simplify the process from a compliance point of view.</p> <p>Adequate care must be taken to incorporate new data and maintain quality of data while self-reporting to the benchmark agencies.</p>
6.	3.6 “Any association of SEBI registered AIFs which in terms of membership represent at least 50% of the registered AIFs, may propose one or more Benchmarking Agencies, who shall enter into agreement with AIFs for carrying out benchmarking process. All the AIFs who have been registered for more than 3 years, shall provide the necessary information/data to all the Benchmarking Agencies “	<p>SEBI recognized entity with experience and vintage in constructing index related activities should be involved in deciding the benchmarks.</p> <p>Wherever possible, public market equivalents should be used, to ensure ease of understanding and transparency of calculation</p>	<p>SEBI should mandate the quality of benchmarking by recommending an upper limit of tracking error</p> <p>Proposal of benchmarking agencies by AIFs or its association can lead to conflict of interest.</p> <p>Multiple benchmarking agencies can led to difference in calculation of the index value from agency to agency.</p>
7.	4.8. On an annual basis, an audit of the compliance of the AIF with the terms of the PPM, with special emphasis on impact of side letters on other investors, shall be carried out by an auditor	<p>a. Auditing of operations and Compliance of the same have different scope and adequate differentiation must be made</p> <p>b. Adequate care during auditing must be taken to ensure side letters do not “eclipse” PPM in scope and investor protection.</p>	<p>PPM is a legal document and compliance with it should be certified by the external legal counsel except in 4 areas - valuation & valuation principles, the waterfall, highwater mark and financial return - which should be certified by independent auditors.</p> <p>This difference in scope is important and needs to be recognized.</p>



Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Paragraph of the Template for Category I & II	Comments/Suggestions	Rationale
1.	SECTION I: EXECUTIVE SUMMARY Disclosure of Registration No.	The language under this point may be modified to include in-principle approval: Disclosure of Registration No/ in-principle no:	AIF Regulations permit proposed AIFs to conduct the road show and raise commitment once SEBI has issued in-principle approval. Therefore, same could be in-built in the format.
2.	Section V. Governance Structure. F. Investment Committee	Valuation committee and its members should also be mentioned	This section should list out the members of the valuation committee (if any), as for CAT 1 and 2 funds valuation committee will play an important role in performance reporting
3.	Section VI: Track Record of the Manager Description of Portfolio Companies and investment exits for the Fund	The language under this point may be modified to include only past (for track record)/current (for current performance) top 10 investment / disinvestment, including description of portfolio Companies and investment exits for the Fund (Top 10 Holding with percentage)	Please note that Cat III open ended scheme can hold more than 30 stock at particular give time. It would be difficult to capture all the details in the PPM, therefore we recommend that scheme can disclose top 10 holdings/ disinvestment with its percentage (to the total AUM) for the quarter end.
4.	Section III Investment Objective, Strategy and Process	Percentage allocation of proposed investments may be made 'indicative' with the discretion with Investment Manager for variations. However, prior consent should be required if Manager proposes any change in the fundamental investment objective and strategy of the AIF. This threshold of allowed deviation should be explicitly mentioned.	AIF schemes are launched with certain investment thesis prevalent at the time of launch. With time, the Manager may need to change allocations to tap better opportunities for investors. Therefore, some discretion to change those allocation without any consent should be granted. However, for making any change in the fundamental objective / strategy of AIF, consent should be required.



Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Paragraph of the Template for Category III	Comments/Suggestions	Rationale
1.	SECTION VI: TRACK RECORD OF MANAGER Pg.21, point (b) Track record of previous funds (including No. and details of investee companies from which Fund has exited, if applicable)	Details of investee companies of an Investment Manager's past track record shall not be made mandatory for a privately placed product	Details of exited investee companies may also be irrelevant in context of category III AIFs. For First time managers to showcase track record individual team members previous fund managed and its investment details may be contravening with the non-disclosure requirements of the previous organization whose details may not be publicly available.



Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Other Issues	Comments/Suggestions	Rationale
1.	Suitability Questionnaire	While PPM need not have a Suitability Questionnaire, care must be taken to administer a Suitability Questionnaire to the investor while executing the PPM	a. A Suitability Questionnaire will seek to make the risks of the investment vehicle adequately transparent. b. While AIF is aimed towards sophisticated investors, but the condition of 1 crore is readily available with individuals as well, who may be still at risk of mis-selling
2	Money Weighted Returns for Pooled Funds	AIFs have the ability to draw down on commitment lines, and decline offers of cash flow according to their discretion. Such a setup needs to consider money weighted returns, so as to prevent time weighted returns from skewing the calculations	SEBI can consider 2020 GIPS Standards , effective from Jan 1, 2020 and its treatment of return calculation from pooled funds ⁽²⁾ .
3	Return Calculations	Certain additional considerations must be made to ensure that pooled funds adhere to a common set of calculation principles	Again, 2020 GIPS Standards delineates valuation frequency, money weighted return horizon, distributions etc ⁽²⁾ .
4	Presentation & Reporting	Benchmarking framework while welcome, SEBI also has to ensure that while presenting AIFs do not overemphasize on one aspect at the cost of another to paint a rosier picture	2020 GIPS Standards talks at length regarding the best practices around presenting and reporting ⁽³⁾ .

Citation

1. 2020 GIPS Standards

https://www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf

2. pg 49 2020 GIPS Standards

https://www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf

3. pg 50 2020 GIPS Standards

https://www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf

**Indian Association of
Investment Professionals**



**A member society
of CFA Institute**

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org

Sincerely yours,

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