THE INTERNATIONAL EXPOSURE YOUR PORTFOLIO NEEDS

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Family offices and HNIs/UHNIs have the unenviable task of preserving wealth while ensuring that it grows in line with requirements. This is presented as a challenging task only because it is commonly believed that downside protection and healthy returns are mutually exclusive, i.e., one cannot exist while the other survives! The easiest, and perhaps most optimal way to overcome this challenge is to create a well-diversified investment portfolio that enables you to capitalise on multiple opportunities in the investment landscape while minimising downside risk. In order to cater to this need for diversification, the investment industry keeps constantly innovating, introducing new types of investment strategies through different types of investment vehicles. One such vehicle that is gaining prominence is Alternative Investment Funds (AIFs).

Growing at a good clip

AIFs are basically an investment vehicle that enable investors to gain exposure to alternate assets and differentiated investment strategies that are otherwise not easily accessible. While the AIF industry in India is fairly nascent, it has been growing at a strong pace. Commitments raised by AIFs in India stood at INR 8.34 lakh crore as on 31st March, 2023, thereby witnessing an almost 21x growth in the 7-year period March 2016 to March 2023 and 30% growth from the INR 6.41 lakh crore in March 2022.

Of the total Assets Under Management (AUM), Category II funds account for the largest share at INR 6.94 lakh crore, 34% higher than last year. These funds offer exposure to real estate funds, private equity funds, funds for distressed assets, etc. It is important to underscore that such exposure is not offered by Mutual Funds (MFs) or Portfolio Management Services (PMS).

Category III funds, comprising long short funds, long only funds, and hedge funds account for the next highest share of AUM at INR 80,900 crore and reported an 18% annual rise.

The remaining AUM of INR 58,929 crore came from Category I funds which grew by 10% over the last year. Category I funds invest in start-ups or early-stage ventures, social ventures, SMEs or infrastructure funds.

Cumulative Net Figures	March 31, 2023 (Figures in crore)			March 31, 2022 (Figures in crore)		
Category of AIF	Commitments Raised	Funds Raised	Investments Made	Commitments Raised	Funds Raised	Investments Made
Category I						
Infrastructure Fund	15,581	5,466	4,743	11,852	7,912	6,821
Social Venture Fund	1,473	565	331	2,897	2,101	578
Venture Capital Fund	41,726	22,191	18,886	37,445	18,789	16,234
SME Fund	149	62	52	1,181	199	165
Category I Total	**58,929**	**28,283**	**24,013**	**53,374**	**29,000**	**23,798**
Category II Total	**6,93,945**	**2,66,296**	**2,42,915**	**5,19,189**	**2,23,457**	**1,99,452**
Category III Total	**80,900**	**71,030**	**71,055**	**68,796**	**61,406**	**60,809**
Grand Total	**8,33,774**	**3,65,609**	**3,37,983**	**6,41,359**	**3,13,863**	**2,84,059**

Source: SEBI

Cumulative Net Figures	June 30, 2023 (Figures in crore)		
Category of AIF	Commitments Raised	Funds Raised	Investments Made
Category I			
Infrastructure Fund	17,570	5,803	5,000
Social Venture Fund	1,501	693	448
Venture Capital Fund	43,529	22,564	19,239
SME Fund	1,136	342	289
Category I Total	**63,736**	**29,402**	**24,976**
Category II Total	**6,96,132**	**2,70,241**	**2,52,831**
Category III Total	**85,058**	**74,483**	**72,500**
Grand Total	**8,44,926**	**3,74,126**	**3,50,306**

Source: SEBI

An international flavour

The rapid growth in AIF AUM clearly exemplifies its ability to meet the portfolio requirements of investors in terms of providing exposure to differentiated and unique strategies that have the potential to generate good returns over the long-term. Within this fast-growing segment, venture capital and private equity AIFs have garnered significant attention. From an investor's perspective, venture capital and private equity AIFs check several boxes. In today's burgeoning investment landscape, it is not easy for investors to partake in the growth of privately held/unlisted companies. This is where venture capital and private equity AIFs play a significant role, providing investors an opportunity to invest in the unlisted space. This brings us to an important question. Why invest in the unlisted space?

There are several benefits of investing in the unlisted space. These include:

An opportunity to participate early on in very young and high growth technology companies' journeys, with a chance of the investment becoming a multi-bagger

Invest in cutting-edge technologies and companies which are pushing the envelope of new ways of doing business

Inarguably, India has become a mecca for startups as a host of factors conflate to create a fecund environment for innovation focused new businesses. To that extent, there are myriad opportunities for wealth creation in India. Having said that, there is also a compelling case for giving your investment portfolio an international flavour and diversifying into international markets, especially in the unlisted space. The key reasons for this include:

- Diversification of assets and exposure to businesses with high growth prospects in various geographies
- Technology innovations progress at a faster pace internationally. Indian startups are known to adopt technologies and business models from the West.
- Companies target multiple geographies and markets like the US, Southeast Asia, Middle East, etc.
- Opportunities for liquidity through unlisted equity platforms (like Linqto). Further, there are also more M&A activities in the West, for example, Visa's acquisitions of fintech infrastructure startups.

Thus, while AIFs can potentially add good value to your investment portfolio, venture capital and private equity AIFs that provide exposure to the international unlisted space can be particularly value accretive as they give you an opportunity to invest in very high growth global technology businesses. To enable such an exposure, an AIF simply needs to register in GIFT City under International Finance Service Centre Authority (IFSCA). Such an AIF can raise capital from both overseas as well as Indian investors, invest in listed and unlisted companies overseas, and enable outbound investments in $ terms. For investors in India, it becomes an easy and efficient way to invest in unlisted international companies and gain diversification with a good upside potential.

Closing thoughts

While venture capital and private equity AIFs seem like a compelling investment option, it is important to be aware of potential risks that could stem from such an investment. Firstly, these investments could have illiquidity risk as they belong to the unlisted space and the investment time horizon is usually 3-5 years or longer. Secondly, unlisted companies are also a high-risk asset class where there is a real possibility of loss of principal (in addition to chances of achieving a multi-bagger). Thus, selection becomes key. When you choose to invest in an AIF, you must ensure that you are investing in a fund that offers differentiated exposure and is aligned with your risk-return metrics. Evaluate aspects such as the team composition and track record, experience and insights in different business segments, and deal sourcing funnels. Once you are confident that the relevant boxes have been checked, you can consider investing in the AIF.

Multi-Act operates a Private Equity AIF with investments in capital markets technology platforms and the insurtech sub-vertical of the fintech segment. The AIF endeavours to invest in B2B and B2B2C fintech business models in the investment tech and wealth tech sub-verticals. The AIF has invested in young and mature private companies in India and abroad. The fund is headed by the experienced leadership at Multi-Act along with independent Investment Committee members who are veterans of the field. The team is moving towards completing the deployment of the existing fund and is looking to raise a much larger fund which would have the capability to deploy capital in Indian and foreign opportunities with higher efficiency and an expanded scope in the fintech segment.

Disclosure and Disclaimer:

Multi-Act Private Equity Investment Fund ("Fund"), is a Fund of Multi-Act Private Equity Investment Trust ("Trust"), an Alternative Investment Fund ("AIF") launched by Multi-Act Equity Consultancy Private Limited ("Investment Manager") and registered with Securities and Exchange Board of India as a Category II AIF bearing registration number IN/AIF/2/17-18/0367.

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