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## ALTERNATIVE INVESTMENTS SCENARIO IN INDIA AND ITS ISSUES AND CHALLENGES

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### Abstract

The aim of paper is to study the Alternative Investments market in India and compare it with the Developed Countries. Indian Investors should be made aware of the investments that will slowly make the trend and give boost to the Alternative Investments. It is very much required that these investments should get funds because they also need to develop in order to properly invest in various instruments that will contribute to the overall development of the Indian Economy. Alternative investments offer greater returns with low correlation with traditional investments. Indian financial markets have great growth potential with these investments as equity participation is growing in Indian markets and retail as well as large investors are eyeing for greater returns with their investments that they want to make in alternative assets. Though there are many steps taken to promote these assets there are still some road blocks to clear which will invite greater investments from foreign portfolio investments into these assets.

**Key words:** Alternative Investments, Developed Countries, Financial Markets, Indian Investors.

### Introduction

Alternative Investments include investing in Hedge funds, Private Equity, Private debt, Infrastructure, Commodities, Collectibles, Structured Products and Other investments. These investments are different from the traditional investments like stocks, bonds and money market instruments. They are not correlated with the market. However, in times of financial crisis these investments do fall with the Traditional investments. In a traditional public investment like stocks, you may find lot of volatility because the prices of the stock not only change due to the company's performance but there are various other factors that do influence it but in the Alternative Investments as it is a private investment, you avoid volatility plus your investment is backed up by a real asset. Traditional investments are just paper asset but your Alternative investments are backed up by real assets. It is observed that Alternative Investments provide greater income than the traditional income.

Alternative Investments grew fast since mid-1990s. These investments growth happened because of the focus of the pension funds, endowment funds as well as HNIs. The Alternative investments will also include traditional products in its portfolio which is invested by the portfolio managers.

Alternative Investments offer greater portfolio diversification and lower overall risk with the potential for higher returns.

There are two types of returns that the Alternative Investments seek to provide, they are 1. Absolute Return and 2. Relative Return. Absolute return is expected to provide investors with returns in all times of the economic cycle and relative returns seek to earn returns on an Equity or Fixed income index.

### Research methodology

Data collection: The data for the study is collected from the secondary sources.

### Research Objectives

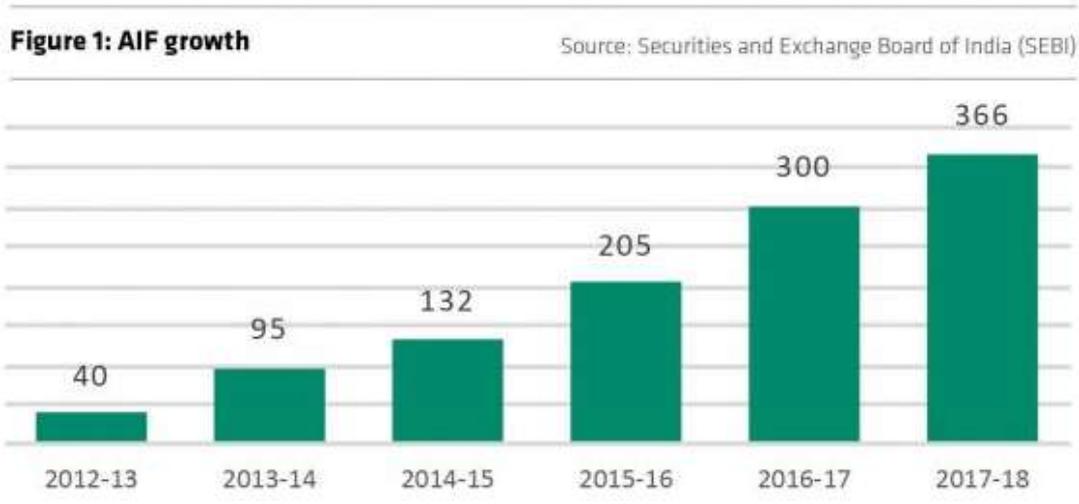
1. To study the present market scenario of Alternative Investments in India.
2. To study the present market scenario of Alternative Investments in World.
3. To study the issues & Challenges in India about Alternative Investments.



### Alternative Investments Scenario in India

The Indian Association of Alternative Investment Funds (IAAF) is a non-profit organization set up with the objective of promoting and protecting the interest of the Alternative Investments Industry in India. The IAAIF is established by Association of International Wealth Management of India (AIWMI) and is incorporated as a company limited by guarantee.

The various alternative products available in India are Venture Capital Funds, Angel Funds, SME Funds, Private Equity Funds, Real Estate Funds, Funds for Distressed Assets, Hedge Funds and Private investments in Public Equity Funds (PIPE).



In the coming years India requires to invest a substantial \$1.5 trillion in physical infrastructure to grow the economy and meet the ambitions of Indians. To fulfil this, Infrastructure Funds are financing the construction of infrastructure across India. The Government of India established the National Investment and Infrastructure Fund Limited (NIIFL) in 2015 to invest in domestic infrastructure and take advantage of growth.

In 2017 India received PE funds' investments above \$26 billion while the exits from the investments were at \$16 billion. Global private equity investments across the world stood at \$ 3 trillion dollars and compared to that our country share is very small. PE because of their attractive returns attract the Indian investors however the fund's investment is high and it can be afforded by rich only who want more returns apart from staying invested in Stock Market.

Hedge funds are new in India, they are struggling because Income tax laws are taxing them at fund levels, Income tax laws have failed to define various Alternative Investments. Hedge funds are generating returns regardless of the market sentiment that is attracting investors with high-risk appetite to invest in them. Favourable Income tax laws might attract more Indian investors to invest in these funds.

### Alternative Investments Scenario in the Developed Markets of the World

Alternative Investments are to the tune of \$10.3 trillion in US. It is likely to grow to \$14 trillion by mid of 2023 expanding at a CAGR of 8.0%. The one important reason for this huge investment and high growth is digitization which makes the investment manager monitor his portfolio seamlessly.

US AIF market is regulated by SEC, there are alternative mutual funds which pools the investments publicly which makes the retail investor to participate and that makes large volume of investments. These mutual funds are highly transparent and offer the investment with low minimum amounts.



In Europe AIF investments were valued at \$ 7.0 trillion in the beginning of 2019. The market grew 11% from the previous year, majorly because of the launching of new AIFs. Professional investors own most of the share of AIFs, despite that retail investors' share is significant at 16%. The AIFs in Europe predominantly invest in the European Economic Area (EEA) and across a broad range of asset classes.

Europe's AIF industry gained predominantly because it offers lower transaction costs compared to traditional investments, market volatility mitigation, and the ability to provide greater returns. Retail and institutional participation together brought high investments in AUM.

### Issues & Challenges

Investing in commodities is a problem area because of the lack of proper supply chain of producer, middle man and consumer. The farmers and producers are not given the appropriate price for their produce and middle man getting huge profits and consumers bearing the brunt of the high prices that makes inflation to rise, the prices of commodities are volatile in India thus making commodity investments risky.

Gold is a commodity which is a part of alternative investment however India being the second largest importer of Gold beside China, the gold is being used for Indian households non-productive use instead of investing in the Gold Indexes which introduced by our Prime Minister Mr. Narendra Modi of Bonds which give fixed returns, if the gold is invested in the market.

SEBI as it is creating awareness to the individual investors about the benefits of investing in Equity Markets with the aim to increase the depth in the market. SEBI should also take the steps to promote the awareness of the Alternative Investments applicable to the Investors.

Mutual funds should include more of the Alternative Investment products as a part of their fund and also educate their investors about its benefits which would also increase the participation.

Hedge funds and other Alternative investment products are not being defined by Income tax, they should be included in the scope of the law and given favourable treatment for their growth.

### Conclusion

Alternative investments have shown a consistent growth in India, they have a great potential as investment for Indian investors however strong government support accompanied with more exposure to the investors who do not know about these investments, encouraging funds to include more and more small investors who can participate in these investments and get greater returns but as these investments are no fool proof in financial crisis when every market is falling, enough vigilance is required to make sure that these investments are not going out of proportion where they are being creating a kind of speculative market.

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