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# Alternative investment has grown 5-fold in 2 years: Jo Murphy

By ETMarkets.com | Updated: Oct 12, 2016, 10.36 AM IST

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The estimated global pool of assets in alternative investment (AI) under managing is over \$10 trillion, said **Jo Murphy**, Managing Director- Asia Pacific, **CAIA Association**. In an exclusive interview with **ETMarkets' Kshitij Anand**, Murphy said cumulative funds raised in **India** as of June 2016 was Rs 26,003 crore – a five-fold increase over 2014. Edited excerpts

## What is the rate of growth in alternate investment industry? What do you classify as an alternative investment product?

The Alternative Investment (AI) industry continued to grow strongly through 2015 and the first half of 2016. Estimates see the global AI pool of assets under managing in excess of US\$10 trillion.

This asset increase is driven by investor demand as institutions globally look to diversify their portfolios to include a wider range of asset classes to generate strong returns, reduce **volatility**, hedge against **inflation** and access reliable income sources.

An alternative investment is an asset that is not one of the conventional investment types, such as **stocks**, **bonds**, and cash.

## What are the avenues available for Indian investors when we talk about the emerging alternative investment industry? Does one view this as diversification strategy? What percentage of Indian investors -- direct and via MFs -- have started using this strategy?

Specifically, for India, there are three types of AIFs – category I, category II and category III, established 2012:

Category I includes start-ups, early stage ventures, SMEs or infrastructure and are closed ended.

Category II are typically PE / **debt Funds** with no specific incentives or concessions. Does not employ leverage or borrowing and are closed ended funds.

Category III - includes hedge funds - diverse / complex trading strategies and may employ leverage (through investment in listed or unlisted derivatives). Include both **open** and closed ended funds.



Alternate Investment Funds (AIFs) refer to privately pooled investment funds, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered by any Regulation of SEBI governing fund management.

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**Cumulative net figures as at the end of 30th June 2016****(All figures in Rs. Crores)**

Category	Commitments raised	Funds raised	Investments made
Category I			
Infrastructure Fund	6787.81	2317.14	1692.99
Social Venture Fund	747.52	444.02	270.79
Venture Capital Fund	3803.45	1528.45	1092.73
SME Fund	161.44	124.4	17.62
<b>Category I Total</b>	<b>11500.22</b>	<b>4414.01</b>	<b>3074.13</b>
Category II	32696.27	16734.99	13776.49
Category III	6245	4854.48	3816.58
<b>Grand Total</b>	<b>50441.49</b>	<b>26003.48</b>	<b>20667.2</b>

Note : The above report is compiled on the basis of quarterly/monthly information submitted to SEBI by registered Alternative Investment Funds.

In India, alternative investment funds (AIFs) are defined in [Regulation 2\(1\)\(b\) of Securities and Exchange Board of India \(Alternative Investment Funds\) Regulations, 2012](#).

It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered by any Regulation of SEBI governing fund management.

Increasingly, affluent, high-net-worth and family office investors in India are using alternative investments in their portfolios over and above their existing stocks, bonds, and cash investments.

Over the last two years, AIF inflows have seen a significant increase. Numbers from SEBI's website clearly confirm this. Cumulative funds raised as of June 2016 was Rs 26,003 crore – a five-fold increase over Rs 5,204.8 crore cumulative funds raised through June 2014.

#### How are hedge funds different from traditional [mutual funds](#)?

Structured products allow investors to tailor the way they extract return and the shape of [risk](#) they are comfortable with. Not only can this be helpful from a [risk management](#) perspective, it's a way for smart investors to create a volatility exposure that protects other parts of their [portfolio](#).

Hedge funds, despite recent underwhelming absolute performance, are an effective way to access public securities [markets](#) with a mitigated risk profile. A typical [hedge fund](#) might offer 2/3 of the upside of a [market](#) investment with 1/3 the downside.

Some of the more institutionally-targeted funds can be market neutral with very low volatility, but consistent if small positive returns. While not exciting, this kind of risk-return profile can be very helpful to an institutional asset owner.

Putting all this together takes specialist expertise. One key advantage of these asset classes is that they have different, and asymmetric, risk/return profiles. That creates very powerful diversification benefits but also means that a conventional optimization approach to portfolio construction won't work. Allocators need training and experience, or unbiased specialist advice.

#### Hedge funds are scary. One of your reports quoted that the rate of liquidations of these funds is increasing? How should one read that number?

I wouldn't say that HFs are scary! .... Hedge funds are like mutual funds in that they are pooled investments managed by a professional asset manager. Unlike mutual funds, hedge fund managers have wide discretion and flexibility on what they invest in.

#### Are any investor protection avenues available for Indian investors who have invested or are planning to invest in these products?

Comprehensive investor protection exists under SEBI rules in India – as all AIFs are governed by this rule book.

#### How many hedge funds have some holding in India equity markets? What is the kind of money that we are talking about?

Top five India-based hedge funds include names like India Insight Value Fund, Malabar [Capital Trust](#), ArthVeda [Alpha Plus](#), I-Alpha, And Malabar India Fund. Top five India-only invested hedge funds include names like Atyant Capital, India Insight Value Fund, Malabar Capital First, ArthVeda Alpha Plus Extreme 25, and I-Alpha.

Firm	Location	Total AUM (USD bn)	AUM Date
Blackstone Alternative Asset Management	US	1990	\$68.0bn as at 31 March 2016
UBS Hedge Fund Solutions	US	2000	\$34.2bn as at 31 March 2016
Goldman Sachs Asset Management	US	1997	\$28.9bn as at 31 December 2015
HSBC Alternative Investments	UK	1994	\$27.8bn as at 31 December 2015
Grosvenor Capital Management	US	1971	\$25.1bn as at 31 March 2016
Morgan Stanley Alternative Investment Partners	US	2000	\$21.7bn as at 31 March 2016
BlackRock Alternative Advisors	US	1995	\$20.7bn as at 31 March 2016
Permal Group*	US	1973	\$18.4bn as at 31 March 2016
J.P. Morgan Alternative Asset Management	US	1995	\$12.8bn as at 31 March 2016
Man FRM	UK	1991	\$12.1bn as at 31 March 2016

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