



KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

Alternative Investment Funds (AIFs)

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In News:

According to recent SEBI data, real estate has emerged as the single largest sector attracting investments from Alternative Investment Funds (AIFs) in India — surpassing startups and infrastructure.

About Alternative Investment Funds (AIFs)

Definition:

An Alternative Investment Fund (AIF) is a privately pooled investment vehicle that collects funds from sophisticated investors (Indian or foreign) and invests them as per a defined investment policy for their benefit.

Legal Structure: AIFs may be set up as a Trust, Company, Limited Liability Partnership (LLP), or Body Corporate.

Regulator: Securities and Exchange Board of India (SEBI) under the SEBI (Alternative Investment Funds) Regulations, 2012.

Exclusion:

AIFs do not include funds governed by:

SEBI (Mutual Funds) Regulations, 1996

SEBI (Collective Investment Schemes) Regulations, 1999

Any other fund-management regulation by SEBI

Category

Key Features

Examples

Category

Category I

Invest in **startups, SMEs, social ventures, infrastructure**, etc. — sectors considered **economically desirable**.

Venture Capital Funds (VCFs), Social Venture Funds, SME Funds, Infrastructure Funds

Category I

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Category II

Funds **not covered under Category I or III**; do **not undertake leverage** (except for operational needs).

Real Estate Funds, Private Equity Funds, Funds for Distressed Assets

Category II

Category III

Employ **diverse/complex trading strategies** and may use **leverage** (e.g., derivatives).

Hedge Funds, Private Investment in Public Equity (PIPE) Funds

Category III

Recent Trend

Real estate has overtaken startups as the top destination for AIF capital, particularly under Category II AIFs.

Factors driving the trend:

Rising demand for commercial and residential property.

Institutional interest in India's urban infrastructure and REIT-linked assets.

Stable long-term returns compared to volatile equity markets.

Significance

Mobilizes long-term risk capital for India's growth sectors.

Reduces dependence on bank credit and broadens financial intermediation.

Supports the startup ecosystem, real estate, and infrastructure development.