

Dated: 13 July 2023

To,  
Alternative Investment Fund and Foreign Portfolio Investors Department  
Securities and Exchange Board of India  
SEBI Bhavan, Plot No. C-4-A, 'G' Block  
Bandra Kurla Complex  
Mumbai – 400051

Dear Sir,

**Sub: Request for Informal Guidance by way of interpretative letter under the provisions of SEBI (Informal Guidance) Scheme, 2003**

**Ref: Regulation 18 of SEBI (Alternative Investment Fund) Regulation, 2012**

We submit this letter for seeking an Informal Guidance in the form of an interpretative letter under the provisions of the SEBI (Informal Guidance) Scheme 2003 ("Scheme"), in connection with the compliance of the provisions of Regulation 18 of SEBI (Alternative Investment Fund) Regulation, 2012 (AIF Regulations).

**1. Background of the Applicant**

- 1.1 Athena Alternative Investments Trust (Fund) is a Category III AIF, registered with SEBI bearing registration No.IN/AIF3/22-23/1166 dated November 02, 2022.
- 1.2 The Fund has successfully launched 2 schemes and has a corpus of ₹ 570 Crores across both the schemes
- 1.3 The Fund will also launch a third scheme shortly, which has already been taken on record by the Board.

PRAJANA ADVISORS PRIVATE LIMITED

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CIN: U74999MH2022PTC384151

2. **Applicable Provisions**

- 2.1 Pursuant to Regulation 18 of AIF Regulation, Cat III AIF may invest in securities of listed or unlisted investee companies, derivatives, units of other Alternative Investment funds or complex or structured products.
- 2.2 Regulation 2 (1) (lb) of SEBI Portfolio Managers Regulation, 2020, defines "investee company" as "investee company" shall have the same meaning as assigned to it in clause (o) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India(Alternative Investment Funds) Regulations, 2012;
- 2.3 Regulation 2 (1) (o) of SEBI AIF Regulation defines Investee company as "investee company" means any company, special purpose vehicle or limited liability partnership or body corporate or real estate investment trust or infrastructure investment trust in which an Alternative Investment Fund makes an investment
- 2.4 Further, Regulation 18 (b) of SEBI AIF Regulation permits Category III AIF to invest in units of Category I or Category II Alternative Investment Funds, provided that they invest solely in such units and shall not invest in units of other Fund of Funds.

3. **Action Proposed by the Company**

**We are writing to seek clarity on whether a Cat III AIF can invest in Mutual Funds on a permanent basis as a part of the multi asset portfolio?**

At present, SEBI permits an Alternative Investment Fund to invest in other Category I and Category II AIF's. However, Category III AIF's are not permitted to invest in other Category III AIFs and mutual funds (other than liquid funds for the purpose of temporary investments).

SEBI allows mutual funds to offer a Fund of Fund whereby a scheme may invest in other Mutual Funds schemes. This allows mutual funds to have a single scheme which can work as a multi-asset investment platform, and provide diversification to the investor within the ambit of a single scheme and single NAV. This makes it easier for investors to determine their overall portfolio performance through a single NAV, apart from offering operational ease. In a similar vein, **PMS can also invest into direct plans of mutual funds.** However Category III AIFs are unable to offer this facility to their investors in wake of this restriction, thereby being unable to offer single asset allocator product to the investor.

We also see that the regulations permit Category III AIFs to invest in Category I and Category II AIFs, which indicates that the regulator has considered creating this kind of facility for the investor through the Category III AIF.

We highlight the benefits of having a multi asset product which encompasses mutual funds in the Category III AIF space;

- a) The benefit for the investor is that they can access multiple products and multiple asset classes through a single investment into the AIF.
- b) The AIF will declare a single NAV that will take into account the mark to market values of the underlying assets.
- c) The investor will invest into a model portfolio and all investments in underlying securities will be in direct plans or an equivalent basis with no retrocession.
- d) The investor needs to do a single KYC and does not need to open separate KYC/separate account with each counterparty.
- e) There is also no need to track statement(s) and tax impact from the various investments since the fund will pay tax and offer a post fee post tax return to the investor.

It is also pertinent to note that post the changes in taxation rules for Debt Mutual Funds in the Union Budget 2023, the taxation rules for investment vehicles are now harmonised. There is no other advantage or loss of tax revenue to the exchequer by granting this dispensation.

We would be pleased to furnish any additional information as may be required in support of this letter for seeking an informal guidance.

For Prajana Advisors Private Limited

Investment Manager of Athena Alternative Investments Fund



Vineet Bagri

CEO and Fund Manager

