

# Alternative Investment fund

- ▶ Alternative investment fund refers to a privately pooled investment vehicle which collects funds from eligible investors for investing in accordance with a defined investment policy for the benefit of its members.
- ▶ A fund shall be established for a specific period from 05(five) to 15 (fifteen) years with a maximum 2 year's of extension.
- ▶ The units of a fund shall not be listed on any Exchange.
- ▶ A fund shall be formed to make a particular type of investment and operate entirely in its respective investment arena only. An alternative investment fund which has been granted registration for a particular category of investment, cannot change its category subsequent to registration.
- ▶ A fund may be operated as a general fund or an Islamic fund.

# Alternative Investment fund -Types

- ▶ Types of Alternative investment fund - Private equity fund, Venture capital fund, Impact fund
- ▶ Venture capital fund means an alternative investment fund which invests primarily in non-listed equity and equity linked securities of start-ups **with less than 02 (two) years' operational history** or **green field companies** or emerging early-stage undertakings mainly involved in new products, services, technologies or intellectual property rights based activities or new business models.
- ▶ Private equity fund means an alternative investment fund which invests primarily in equity and equity linked instruments of potentially high growth non-listed portfolio companies with **minimum 02 (two) years' operational history** or to conduct **buyouts** of companies according to the stated objectives of the fund.
- ▶ Impact fund means an alternative investment fund which invests in equity and equity linked instruments of such companies, organizations, and funds which are engaged in activities with the intention to generate a **measurable and beneficial social or environmental impact** in **addition to financial returns**, as justified with internationally recognized criteria.
- ▶ Equity linked instruments means quasi-equities like fully or partly convertible or redeemable preference shares and debt securities with convertible features.

# Sponsor & fund manager's subscription

- ▶ Minimum fund corpus shall be at least Tk.10,00,00,000.00 (taka one hundred million) and subscription by the sponsor(s) is not less than 10% (ten percent) of the corpus.
- ▶ Minimum investment by the fund manager shall be at least 2% (two percent) of the fund corpus; along with its connected persons, the fund manager shall not hold more than 25% (twenty five percent) of the fund at any point of time.

# Eligible Investors

- ▶ Eligible investors (can be an institution or an individual) means participants eligible and competent to understand the risk & return potentials to invest and commit capital to any alternative investment fund.
- ▶ The minimum subscription to the units of a fund shall be Tk.50,00,000.00 (taka five million) by each investor.
- ▶ No alternative investment fund shall be subscribed by more than 200 (two hundred) investors.
- ▶ High net worth individual” or “HNI” means a natural person having minimum net worth of taka 20 (twenty) million

# Eligible investors' contribution

- ▶ A fund shall collect commitments from the investors up-to a period of 03 (three) years from the date of its registration and declare the final fund size, which shall not be increased after the said period.
- ▶ A fund shall collect 5% of the committed amount from the investors at the time of commitment which may be forfeited by the fund if the committed amount is not paid-up by any investor upon call.
- ▶ A fund shall realize and invest at least 50% (fifty percent) of the fund corpus within a period of 05 (five) years from the date of registration, in the event of failure to which, the fund manager shall refund the amounts realized from the investors within 06 (six) months of expiry of the said period along with such interests as disclosed in the constitutive documents.
- ▶ An alternative investment fund shall declare, to the unit holders, cash dividends only.
- ▶ All investments in a fund shall be locked in for a period of 03 (three) years from the date of issuance of units.

# Investment parameters

- ▶ At least 75% (seventy five percent) of the fund corpus shall be invested in non-listed equities; provided that, in case of delay of such investment, the unused portion of realized fund may be invested in money market instruments up-to a period of maximum 01 (one) year;
- ▶ Maximum 25% (twenty five percent) of the fund corpus may be invested in listed securities and units of alternative investment funds managed by other fund managers
- ▶ Investment in a single listed securities shall not exceed 5% (five percent) of the fund corpus;
- ▶ No alternative investment fund shall invest more than 25% (twenty five percent) of the fund corpus in a single non-listed Equity.

# Fund Manager's duties

- ▶ Maintains adequate financial, technical, infrastructural and organizational facilities and human resources, and employ appropriate systems, procedures, technologies, processes and personnel to discharge alternative investment fund management services in a proper and efficient manner on an ongoing basis.
- ▶ Prepares financial statements within 90 (ninety) days of closing of the accounting year
- ▶ Within 15 (fifteen) days of completion of the audit, holds AGM of the unit holders and within 07 (seven) days of the AGM, transmit the following documents certified by the Trustee to the unit holders and the Commission
  1. Balance sheet stating details of investments depicting cost and realizable value of such investments
  2. Income statement
  3. Cash flow statement
  4. Auditors' report
  5. NAV per unit of the fund

# Risks of the Alternative Investment Fund

- ▶ Concentration risk at fund level
- ▶ Foreign exchange risk at fund level
- ▶ Leverage risk at portfolio company levels
- ▶ Realization risk (i.e. change in exit environment) at fund and portfolio company levels
- ▶ Strategy risk (i.e. change in or divergence from business strategy) at portfolio company level



# Fund Manager's fee

- ▶ The fund manager shall be entitled to an annual fund management fee up to 4% (four percent) of NAV of the fund for managing an impact fund, up to 3% (three percent) of NAV of the fund for managing a venture capital fund and up to 2% (two percent) of NAV of the fund for managing a private equity fund.
- ▶ The fund manager may share up to 20% of the net annual profit of a fund, if the fund can achieve the hurdle rate as per terms and conditions disclosed in the Constitutive document.

# Trustees

- ▶ The Trustee can be a bank, a financial institution or an insurance company.
- ▶ The Trustee shall hold the assets of the fund in its custody on behalf of the unit holders
- ▶ shall **appoint an independent valuer** for valuation of the fund's investment
- ▶ Shall appoint a **Shariah council** for an Islamic fund
- ▶ Shall approve an **investment committee** for the fund upon recommendation of the fund manager
- ▶ Shall form **an advisory committee** for the fund from amongst the unit holder
- ▶ Shall approve person(s) of fund manager **to represent in the board of directors** of portfolio companies

# More holistic definition of alternative investment

- This law did not attend the definition of 'Alternative Investment' from a holistic point of view.
- The definition of alternative investment is really encompassing.
  - a. Hedge fund
  - b. Private equity
  - c. Real estate
  - d. Commodity
  - e. Infrastructure and others

# Sponsor's standing

- The act did not specified the legal standing of sponsors.
- It is not clear whether the sponsors would be treated as LP or GP.
- They should be like normal LPs.

# Funding buyouts

Subclause 18 (4) “Investment of an alternative investment fund in non-listed portfolio companies shall be made only in equity and equity linked instruments but **shall not invest in pure debt securities** nor **provide any loan.**”

How buyouts are going to be funded then?

# Possible exit avenues

Nothing had been mentioned about the possible exist avenues.

1. IPO
2. Recapitalization
3. Liquidation
4. Trade sale

# Fund manager's payment structure

- Fees should be based on committed capital; not on NAV – at least up to the first 3 years since registration.
- Carried interest – needs to be distributed only if the NAV exceeds the paid-up capital of the LPs and preferably on a deal-to-deal basis.
- Ratchet clause should have been incorporated to motivate a fund manager.
- Transaction fees should have been incorporated along with management fees and carried interest.
- High-water marks and Claw-back provision needs to be incorporated

# Fund manager's performance appraisal benchmark

- PIC – paid in capital
- DPI – distributed to paid in
- RVPI – residual value to paid in
- TVPI – total value to paid in
- Gross IRR calculated on annual basis
- Net IRR calculated on annual basis