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2020 was a momentous year for the alternative asset industry with Sebi introducing a number of regulatory changes. Some broad measures were aimed at bringing greater transparency for the investor by standardization in return calculations. Sebi has introduced performance benchmarking as well as standardization of private placement memorandum ("PPMs") in order to make comparisons in performance easier. Similarly for PMS products, it is mandatory to use Time-weighted rate of return (TWRR) in highlighting performance.

The second area of reform touched on investor protection by increasing capital adequacy of funds. Sebi has raised the minimum capital required for PMS from Rs 2 crores to Rs 5 crores. Arguably, this appears high in relation to capital requirements in other countries across the globe. This may mean a gain in market share for the larger players while investors may see reduction in some niche strategies which the smaller players who may not meet the enhanced capital requirements may have offered. But overall from the alternatives industry point of view investors will be more confident of the capital stability of the funds and hence attract more money.

Lastly, some steps may appear to be negative in the near term for the industry. Firstly, Sebi has raised the minimum investment in a PMS from Rs 25 lakhs to Rs 50 lakhs which reduces the pool of investors for a PMS. Yet, it also clearly demarcates that smaller investors should prefer the mutual fund route and the alternative investments are for more sophisticated investors. Secondly, the move to abolish upfront payment to distributors and move to trail while negative on the margin, brings regulations in line with those for mutual funds.

While the regulatory measures have their pluses and minuses, we think the alternative investment industry is set to see a quantum jump over the next decade and we expect a four-fold increase in its AUM. Four factors will drive this. First is the secular rise in overall savings pool in India. India's savings rate is around 30.1%. Assuming a steady savings rate, total savings in India can increase over 10% CAGR over next decade in line with GDP. Second the mix between physical and financial savings is likely to tilt towards financial savings again. From 2008 when the stock markets collapsed, we have seen a greater proportion of savings go to physical assets like gold and real estate with the current mix being over 60% physical assets. We see this mix moving in favour of financial savings again as real estate will be under pressure. Thirdly, within financial savings, bank deposits account for over 50% of the savings while equities are 5-6%. We see the proportion of equities rising. Lastly, within equity market investments, alternative investments account for a small portion of the pie being less than 20% of the AUM of mutual funds. We think this share rises as investors get more sophisticated and seek higher returns with a more customized risk profile.

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