

# India's rich imitate hedge fund strategies

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India's wealthy are increasingly shifting towards public market-linked investment strategies despite higher risk as opportunities for outsized gains in private markets fade, *Mint's* analysis shows.

Growth in domestic capital inflows into private equity- and private credit-led Category II alternative investment funds slumped to a five-quarter low of 4% in the April-June quarter, the analysis shows. In contrast, Category III funds continued to draw steady inflows, outpacing both Category I and II funds for a fifth straight quarter.

Alternative investment funds collect funds from other investors to invest in companies or projects. Category I AIFs include venture capital and infrastructure funds, while private equity and debt funds fall under Category II AIFs. Category III AIFs such as hedge funds have a higher risk appetite with aggressive investment strategies such as using algorithms for automated high-frequency stock trading.

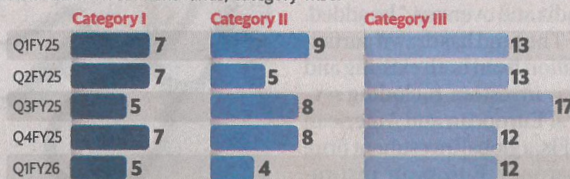
The Delhi High Court recently clarified that Category III AIFs with clear disclosures of beneficiaries will only attract short-term and long-term capital gains taxes, and not an automatic maximum marginal rate of 40%. With clearer tax rules and strong distribution incentives, wealth managers are likely to ramp up Category III AIF offerings this year, predict market experts.

Domestic inflows into Category III funds grew 66% year-

## Liquid funds steal the spotlight

Quarter-on-quarter change (%) in domestic inflows into alternative investment funds, category-wise.

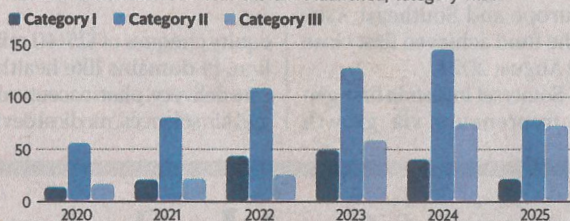
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Source: Sebi, *Mint* analysis

## Public-market-linked strategies catch up

Number of alternative investment funds launched, category-wise.



Note: Latest data as on 31 July 2025.

Source: primedatabase.com

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on-year in the April-June first quarter, over twice the growth of Category II funds, show data from the Securities and Exchange Board of India.

An analysis of PRIME Database's AIF data shows that with 72 launches so far this year, Category III funds are on track to surpass last year's 74.

The surge in Category III fund launches reflects growing client confidence that tech-driven stock selection can deliver better returns even in a slow equity market, said Srikanth Subramanian, chief executive and co-founder of Ionic Wealth, a wealth management platform.

Higher demand for a variety of liquid investments and

clearer rules on Category III fund taxation have helped boost interest, he added.

Category III funds, despite their appeal, were constrained by complex and unclear tax rules, while Category II funds, though illiquid, are popular because they don't attract

taxes, said Tushar Sachade, partner at Price Waterhouse and Co. LLP.

This is evident in the numbers. Category II funds attracted domestic inflows worth ₹2.17 trillion in the June quarter, while inflows into Category III funds were around ₹1.55 trillion, Sebi data show.

"There is ample appetite for Cat II funds," Sachade said. "But lack of quality investment opportunities and tighter exit

conditions may limit fundraising."

Global market fluctuations and sector-specific challenges, including the recent ban on online gaming platforms involving real-money transactions, are putting pressure on deal valuations and affecting exit opportunities for mature private equity portfolios, according to Ionic Wealth's Subramanian.

Limited price discovery and cautious market sentiment are making secondary PE-to-PE investment sales more challenging, causing many early-stage funds to accept lower valuations, he added. "Also, softer IPO sentiment earlier this year reduced liquidity and dampened exit activity for growth and late-stage funds."

India's equity market is seeing a significant increase in IPO activity after a lull earlier this year. Experts, however, said investors might still hold back for a more opportune time to make their bets.

Price Waterhouse's Sachade said investors demand 5-7% additional returns over liquid alternatives while locking up capital in private markets.

Feroze Azeez, joint CEO of Anand Rath Wealth, anticipates a surge in Category III fund launches this year, as these are also typically easier to distribute among a broader investor base. While product launches are more performance-driven in the private market, supply often creates its own demand for new public-market products, he added.

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