

**Brief Comparison between
MF (Mutual Fund),
PMS (Portfolio Management Services) and
AIF (Alternate Investment Fund)**



MF VS PMS VS AIF



	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternate Investment Funds (AIFs)
Definition	A financial vehicle made up of a pool of money collected from investors to invest in stocks, bonds, money markets and other assets.	A service offered by a portfolio manager with investment in stocks, fixed income, debts, cash and other individual securities and can be tailored to meet specific investment objective.	A privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.
Governance / Regulation	SEBI (Mutual Funds) Regulations 1996	SEBI (Portfolio Managers) Regulations 1993	SEBI (Alternative Investment Funds) Regulations 2012
Approach	Investor money is pooled	A separate Demat account i.e. a separate portfolio for every client is maintained.	Investor money is pooled
Types ^	MFs are divided into 5 broad categories and 36 sub categories – (i) Equity Schemes (10) (ii) Debt Schemes (15) (iii) Hybrid Schemes (7) (iv) Solution Oriented Schemes (2) (v) Other Schemes (2)	<ul style="list-style-type: none"> • Discretionary PMS (the clients funds are managed by the portfolio manager who is responsible for stock selection and executing investment decisions) and • Non-discretionary PMS (consultative investment approach wherein the portfolio manager suggests investment ideas) 	<ul style="list-style-type: none"> • Category I - Venture capital, Infrastructure, Angel and social venture funds • Category II - Real estate funds, Private equity funds (PE funds), funds for distressed assets • Category III - Hedge funds and private investment in public equity funds.
Number of Investors	There is no cap specified on the number of investors		The maximum number of investors to any AIF scheme cannot exceed 1,000

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Minimum Investment	Investor can invest in select MFs with as low as Rs. 100 through the SIP mode or a minimum lumpsum investment ranges from Rs. 1000 to Rs. 5000.	The minimum investment size is Rs. 50 lakhs	All AIFs in India except angel fund require a minimum of Rs. 1 crore investment.
Liquidity	Lock in Period – Solution Oriented Schemes – 5 years ELSS – 3 years For the remaining no lock in period but exit load applicable.	Liquidity is relatively lower than that of MF – as investors can withdraw at the discretion in the manner specified in the agreement with exit load applicable in the manner specified therein.	AIFs are least liquid compared to MF & PMS. Category I & II AIF are closed ended with over 3 years gestation period. Category III AIF may be closed ended or open ended. Usually they are closed ended with applicable exit load after the initial hard lock in period.
Disclosure	SEBI has directed MFs to share details of risk, performance and portfolio data with the board / investors / distributors / website.	Required to make timely disclosures to the client. But these are not freely available to the public. Moreover, it is not easy to assess and compare the performance of different PMS products.	Category I and II AIFs and the Category III AIFs which do not undertake leverage are required to submit report to SEBI on a quarterly basis while Category III AIFs which undertake leverage are required to submit the reports on a monthly basis. Thus, AIFs disclosure requirement are the least stringent as compared to MFs and PMS.
Income Tax Benefit	Deduction of Rs.1.50 lakhs under section 80 C under Income Tax Act of 1961 only by investing in ELSS scheme.	No Tax Benefit	

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	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternate Investment Funds (AIFs)
Performance	MFs have to take care of diversification rules, valuation guidelines and redemption related regulations. Therefore, they are benchmark hugging and thus their returns are similar to the benchmark.	PMS are not regulated in terms of stock / sector concentration limits as in the case of MFs, thus are riskier than MFs; however, their returns are much greater for the same reason.	AIF gives the investor an avenue to pool in funds with the flexibility to invest in derivatives, listed & unlisted equity shares, debt instruments, real estate, hedge fund, etc. Thus, it is riskier than PMS and its returns are greater than that of PMS and MF.
Fees structure	There is only expense ratio which is adjusted in the NAV of the fund.	Management fees, and either a fixed fee / performance fee or a combination of both.	Management fees and either a fixed fee / performance fee or a combination of both with a huddle and a watermark rate. However, their fee structure is more complex than that of PMS.
Process and Documentation	Both Physical & Online - to buy and sell schemes.	The investment process is more tedious considering the higher value of transactions. A separate demat account is opened each time a PMS account opened.	Documentation is lengthy compared to MFs and almost the same as PMS.
Redemption Pressure	Redemption pressure - will have a negative impact for the investors who stay put in the portfolio as the MF has to honor the redemption.	The redemption in one investor's account will not affect other investors as each investor portfolio is held in a different Demat account.	The magnitude of redemption pressure is lower than that in MFs as there are high exit loads and lock in periods.

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	Mutual Funds (MFs)	Portfolio Management Services (PMS)	Alternate Investment Funds (AIFs)
Accredited Investment	Not Applicable		Applicable – here the minimum investment can be as low as Rs. 25 lakhs to Rs. 50 lakhs
Investor Category	Retail & HNIs (High net-worth individuals)	HNIs (High net-worth individuals)	HNIs (High net-worth individuals) & UHNIs (Ultra HNIs)
Taxation *	<p>Equity Capital Gains: 15% (ST – less than 1 year holding) 10% (LT – greater than 1 year holding – Rs.1 lakh exemption)</p> <p>Non-equity Capital Gains: Added to income (ST – less than 3 year holding) 20% with indexation (LT – greater than 3 year holding)</p>	<p>Equity Capital Gains: 15% (ST – less than 1 year holding) 10% (LT – greater than 1 year holding – Rs.1 lakh exemption)</p> <p>Non-equity Capital Gains: Added to income (ST – less than 3 year holding) 20% with indexation (LT – greater than 3 year holding)</p> <p>Equity Dividend Income: Added to income</p> <p>Interest Income: Added to income</p>	<p>As per SEBI regulation, AIF can be set up in the form of a trust, a company, a limited liability partnership, or a body corporate. Usually, an AIF in India is set up as a Determinate Trust i.e. if the specific shares of the beneficiaries of the trust are expressly set out in the trust deed and are identifiable and ascertainable as on the date of execution of the trust deed.</p> <p>Taxation of Cat III AIF's Cat III AIFs are NOT pass-through vehicles, and thus they are taxed at the AIF level itself. The taxation rate depends on the type of income:</p> <ul style="list-style-type: none"> • Business Income / Trading & Speculation / ST Capital Gains on Non-equity / Dividend Income: 42.7% • ST Capital Gains on Equity: 15% + 15% Surcharge = 17.9% • LT Capital Gains on Equity: 10% + 15% Surcharge = 11.9% • LT Capital Gains on Non-equity: 20% post indexation + 15% Surcharge = 23.9% <p>Taxation of Cat I & II AIFs: Cat I & Cat II AIF's are considered as pass-through vehicles for a taxation perspective. Any capital gains from the AIF are taxed directly in the hands of the investor. The tax applicable depends on the type of investor - Individual / HUF, Firm / LLP, Private Trust, Domestic Company; and further upon the nature of income received – LTCG / STCG from Listed / Unlisted - Equity or Non-Equity or Dividend Income or Other Income.</p>

Thank You!

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