



SUNDARAM ALTERNATES
— Sundaram Finance Group —

ESSENTIALS FOR ALTERNATIVES INVESTING

A framework for evaluating opportunities
beyond returns

SEPTEMBER 2026

A few years ago, two Mumbai-based family offices each committed capital to a Category II real estate credit AIF quoting a similar headline return, close to 14%. On paper, there was nothing to choose between them. One fund had structured its exposure around a builder's operating cash flows: units already sold, receivables already contracted, repayment scheduled quarter by quarter regardless of how the broader property cycle behaved. The other had underwritten its exposure to the promise of the next funding round and a re-rated valuation at exit.

When the cycle turned, the first fund kept paying, on schedule, without a single restructuring conversation. The second could not, and its investors spent the next two years in workout discussions instead of collecting interest. Both funds had quoted almost the same number at the time of commitment. Only one of them had actually earned it.

That gap between what a return promises and what it actually survives is the starting point for this paper.

Investors may never evaluate every investment through the same lens. A mutual fund is rarely judged the same way as a Portfolio Management Service (PMS). A listed equity investment is assessed differently from a fixed income portfolio, while real estate and gold each demand their own framework for evaluating opportunity and risk.

Alternative investments should be no exception.

Yet, in practice, they often are.

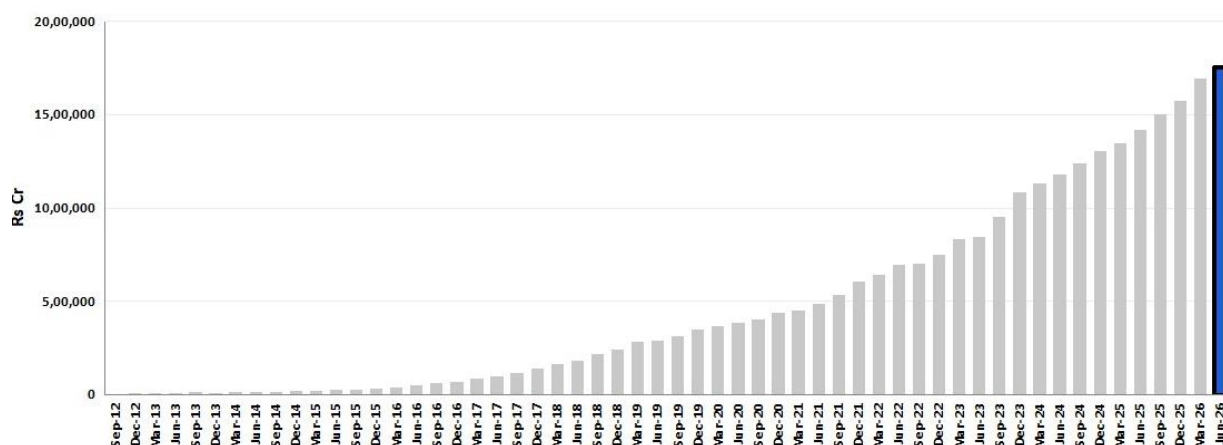
Despite the rapid evolution of India's alternatives ecosystem, conversations around Alternative Investment Funds (AIFs) continue to begin, and often end, with a familiar question:

“What return is this investment expected to generate?”

It is an understandable question. It is also an incomplete one.

Alternative investments are no longer a peripheral allocation for Indian investors. They are becoming a core pillar of portfolio construction. But the same features that make alternative investments attractive such as bespoke structures, illiquidity premia, and access to private opportunities, also make them harder to evaluate than listed markets. This holds whether the allocation sits in Category I venture, angel or infrastructure funds, Category II private equity and private credit strategies, or Category III long-only and long-short public-market strategies.

Exhibit 1: India's AIF industry has scaled from a niche pool of capital to ~Rs 17.5 lakh crore in cumulative commitments as of June 2026¹, a 24% year-on-year increase. Commitments (INR Cr)



Metric	CAT I	CAT II	CAT III	Total
Commitments (₹ Cr)	1,13,041	13,02,837	3,37,192	17,53,070
Funds Raised (₹ Cr)	63,487	4,78,195	2,17,227	7,58,909
Investments (₹ Cr)	51,501	4,28,376	2,30,911	7,10,787
Share of Commitments	6.4%	74.3%	19.2%	100%
1Y Commitments Growth Rate	25%	21%	35%	24%
3Y Commitments CAGR	21%	23%	58%	28%
5Y Commitments CAGR	20%	27%	46%	29%
10Y Commitments CAGR	26%	45%	49%	43%

Private equity has become an important part of this expanding alternatives landscape. In 2025, India recorded USD 60.7 billion of private equity and venture capital investments across 1,475 deals, an 8% increase in value over the previous year. PE/VC exits also reached USD 32.9 billion, underscoring the growing depth of the private-market ecosystem².



Investor Insight | The challenge is no longer access to alternatives. It is knowing how to evaluate them.

¹ <https://www.sebi.gov.in/statistics/1392982252002.html>

² https://www.ey.com/en_in/newsroom/2026/03/india-s-pe-vc-industry-staying-on-the-front-foot-despite-global-headwinds-ey-ivca-trendbook-2026

Did you know?

- **INR 17.53 lakh crore** / Total AIF commitments in India as of June 2026
- **1,969+** / AIFs registered with SEBI, reflecting the scale of India's alternatives market
- **74.3%** / Share of total AIF commitments accounted for by Category II funds
- **35%** / 1-year growth in Category III commitments, making it one of the fastest-growing AIF segments
- **43% CAGR** / 10-year commitments CAGR for India's AIF industry overall

SECTION 1: Why Alternatives require a different evaluation framework**A different asset class calls for a different lens**

Listed markets do a great deal of risk-discovery work for an investor automatically. Daily pricing, standardised disclosure, and continuous liquidity mean that a mispriced risk is usually visible and correctable, within days. Alternative investments strip away a good part of that scaffolding, though unevenly across categories. Category I and II structures: venture capital, infrastructure, private equity, private credit, carry periodic, often model-driven valuations, bespoke and privately negotiated structures, and contractual liquidity. Category III long-only and long-short strategies sit closer to listed markets on paper, with daily or weekly NAVs, but introduce their own opacity through leverage, concentration, and net-exposure decisions that are not always visible in the reported number. In every case, the burden of risk discovery shifts substantially from the market to the investor, and more importantly to the manager they choose to trust with that discovery.

That shift in responsibility is precisely why 'returns' is an incomplete question to ask of an alternative investment, in any category.

SECTION 2: Apparent stability vs actual risk**When smooth NAVs mask real risk**

A recurring challenge in alternative investments is that stability is often easier to observe than risk. This is not because alternative investments are inherently riskier than public markets. **It is because risk can present itself differently.**

Private strategies across categories may often look remarkably stable quarter to quarter, even more so than listed equities. That stability can be genuine, reflecting contracted cash flows, hard collateral, and lower correlation to public markets. But it can also be partly an artefact of periodic, model-driven valuation methods, which simply do not register volatility the way a daily priced instrument would. From the outside, a smooth NAV looks the same either way, which is exactly why the investors should focus not only on the magnitude of return, but on the **quality and path of return**. Mistaking valuation smoothness, on its own, for evidence of low risk is one of the most common errors investors may make in alternatives.

Exhibit 2: Questions to be asked to determine Headline return vs Underlying risk.

Evaluation factor	Questions investors may ask
High fixed yield / target IRR	What is the true source of visible operating cash flows, contractual repayments, asset appreciation, leverage, or future refinancing?
Low reported volatility	Is the underlying risk genuinely lower, or are valuations simply marked less frequently than in public markets?
Back-ended upside	How much of the return depends on exit timing, valuation uplift, market liquidity, or sponsor refinancing rather than realised cash generation?
Downside protection claims	What structural safeguards are actually in place—security, collateral cover, covenants, escrow mechanisms, amortisation, guarantees or step-in rights?
Liquidity or periodic distributions	Are distributions funded by underlying asset cash flows, or do they depend on refinancing, new inflows or delayed exits elsewhere in the portfolio?
Private market growth / equity upside	Is value creation driven by operational improvement and cash-flow growth, or by future multiple expansion and optimistic exit assumptions?
Impact / ESG-led positioning	Are ESG and impact considerations integrated into underwriting, monitoring and governance, or presented primarily as a marketing overlay?

The correct approach is to look through reported NAV to the source of repayment or return, deal by deal. This is where a stated investment philosophy earns its keep. *A framework that places capital protection first, risk-adjusted returns second, and consistent compounding third gives an investor a concrete standard against which to test whether a strategy's apparent stability is real.* In private credit funds, this is reinforced by detailed counter-party criteria (business size, financial ratios, track record with financiers, sector outlook, security structure, compliance standing) embedded in the underwriting process itself, and by collateral cover ring-fenced by covenants on sales, cash flows, and liquidity.

The same principle, differently expressed, applies to Category III long-only strategies. Here NAVs are typically struck daily or weekly, but the smoothness of a reported return can still mask concentration in a handful of names, unacknowledged leverage through derivatives, or a net exposure that quietly drifts with market conditions rather than staying anchored to a stated mandate. The corrective here is the equity equivalent of underwriting: understanding position-level concentration, gross and net exposure over time, and how the strategy has actually behaved.



Investor Insight / *Future valuation should be an upside, not the investment thesis.*

SECTION 3: Liquidity risk

A risk that can catch investors off guard

Liquidity risk in alternative investments is about whether an exit exists but it is also about whether the fund's distribution mechanics match the investor's own time horizon. Two structures with identical stated lock-ins can carry very different liquidity risk depending on whether capital returns steadily through the fund's life or arrives in a single back-ended event.

Exhibit 3: Liquidity is a spectrum. The mechanism of return matters as much as the actual return.

Asset category	Liquidity mechanism
Cat III AIF – long-only equity	Periodic redemption; NAV-linked, market-correlated
Cat III AIF – long-short / hedge strategies	Periodic redemption; gates possible in stress
Private credit (amortising)	Quarterly cash pays + scheduled principal
Private equity	Back-ended, event-driven (exit / IPO / sale)
Real estate / infrastructure	Back-ended or phased
Venture capital	Highly back-ended, exit-dependent
Mezzanine financing	Subordinated financing; contractual income with potential equity-linked upside

The most resilient strategies engineer their liquidity at entry. In private credit, this may mean 100% amortising portfolios with quarterly cash pays of interest, an automatic risk-mitigation mechanism, governed by asset-liability management so capital returns steadily through the fund's life.



Investor Insight / *The first question isn't what return you'll earn. It's where the repayment comes from.*

A complementary approach, increasingly gaining interest in sophisticated portfolios, is hybrid strategy design. This involves blending strategies with different liquidity and return profiles within a single allocation. For example, a private credit or structured yield component for robust and steady cash return, a growth or pre-IPO equity component for upside, a Category III long-short component for a more liquid, lower-correlation return stream, and real assets for inflation protection. Used well, hybrid strategies do not just diversify return sources; they diversify liquidity timing. This is one reason [hybrid and multi-strategy vehicles are becoming a standard building block of modern alternatives allocation](#).

SECTION 4: Manager selection

Manager selection is often the real asset

India's Alternative Investment Fund industry is still, by global standards, in its infancy. Most funds have less than a five-year track record and have not yet been tested through a full economic cycle; several are yet to complete even a single-fund cycle, let alone demonstrate a repeatable, multi-fund history of returning capital. [In a market at this stage of maturity, manager selection is arguably the single largest risk lever an investor controls, sometimes even higher, than strategy or sector selection.](#)

Exhibit 4: Evaluation guidelines for investors. Accessing the manager before the strategy.

Due diligence pillar	What to evaluate
Investment philosophy & consistency	Clarity of mandate, hierarchy of objectives, and discipline against style drift
Track record quality	Realised outcomes, cycle experience, and performance through stress periods
Team depth & decision architecture	Team breadth, investment committee strength, monitoring capability, and key-person dependence
Sourcing edge & competitive positioning	Access to differentiated opportunities, sector expertise, structuring capability, and repeatability of deal flow
Portfolio construction & liquidity discipline	Concentration limits, leverage, liquidity buffers, exposure discipline, and cash management
Governance, alignment & transparency	GP commitment, fee alignment, reporting quality, oversight framework, and conflict management

Underwriting / process discipline

Diligence rigour, downside analysis, covenants or controls, risk budgeting, and risk management discipline

SECTION 5: The importance of underwriting**Underwriting discipline is what separates resilient strategies from the broader market**

If manager selection is the first line of defence in alternative investments, underwriting discipline is the second. **It is also one of the clearest markers of institutional quality.**

The most resilient alternative strategies are not defined by how aggressively they can chase return, but by how rigorously they define downside, structure around it, and monitor it over time. That principle applies across the spectrum of alternatives, though it shows up differently by strategy.

For credit-oriented alternative investments in particular, underwriting quality far more than macro timing, is what separates strategies that protect capital through a cycle from those that do not. This becomes particularly important in mezzanine financing, where capital sits below senior debt in the repayment hierarchy but ahead of equity, and may combine contractual income with equity-linked participation³. The additional return potential therefore comes with a different layer of credit and structural risk that needs to be assessed at entry.

The broader private-credit market is also expanding rapidly in emerging markets. The IMF estimates that private-credit assets under management in emerging markets stood at roughly USD 50-100 billion, around five times the level of a decade earlier, with about half attributed to India⁴.

Private-credit transactions in emerging markets rose from around USD 14 billion in 2024 to more than USD 22 billion in 2025⁵. The IMF's definition of private credit includes mezzanine financing alongside direct lending and special situations.

A disciplined lender evaluates every transaction on one central question: **where does repayment actually come from, and how visible and sustainable are those cash flows?** A high quality credit is structured to repay out of cash flows already present in the business such as sold inventory for a real estate builder, an existing order book or operating receivables for a manufacturing or services business. Repayment premised on a future re-pricing event is treated as upside, never as the underwriting base case.

This discipline is typically embedded through detailed, strategy specific counter-party criteria within credit policy, covering business size, key financial ratios, track record with prior financiers, sector-level strengths and vulnerabilities, permitted end-use of funds, ability to deliver the required security structure, and compliance standing. Portfolios underwritten this way tend to sit at investment grade or better in corporate credit terms, credit enhanced by stable, cash generating businesses and secured by hard assets at cover ratios ranging from roughly 1.5x up to 5x, ring-

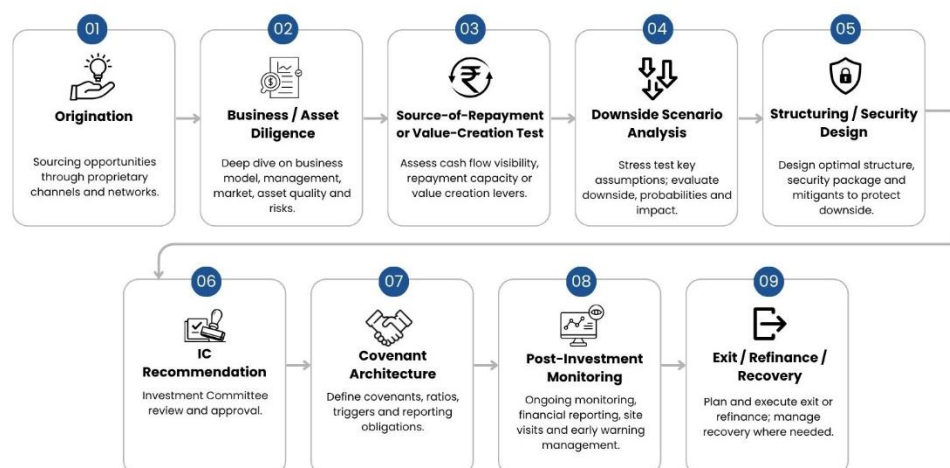
³ https://ppp.worldbank.org/PPP_Online_Reference_Guide/Glossary

⁴ <https://www.imf.org/en/blogs/articles/2026/04/07/as-emerging-markets-attract-more-nonbank-capital-they-also-face-new-challenges>

⁵ <https://www.elibrary.imf.org/display/book/9798229035910/CH002.xml>

fenced by covenants on sales, cash flow, and liquidity. This kind of structural conservatism shows up not in the return number itself, but in how that return survives a downturn.

Exhibit 5: An ideal underwriting process flow.



SECTION 6: Style drift and investment discipline

Consistency is a risk management tool

Aiming for consistency can be daunting, particularly in a hyper competitive fundraising market where transactional, deal-by-deal decision making can win individual mandates faster than a templated, policy-driven process. **The trade-off is real: a manager that will not compromise its investment policy to win a deal will lose some deals to managers who will.** What that discipline buys investors in return is a homogenous, risk-adjusted portfolio with far more predictable cash flows and the elimination of deal subjectivity, style drift, and individual fund-manager bias that continue to affect large parts of the industry. A useful test for investors: has the manager's investment policy changed opportunistically over time, or has it held constant through demonetisation, GST and RERA driven regulatory shifts, the post-IL&FS NBFC funding crunch, and the pandemic? **A track record of zero policy changes across multiple fund vintages spanning nearly a decade, as some established Indian real estate credit franchises can now show, is a far more meaningful signal of institutional-quality discipline than any single fund's headline IRR.**



Investor Insight / At Sundaram Alternates, our private credit franchise rests on three ideas, in this order: capital protection first, risk-adjusted returns second, and a consistent compounding yield to investors third. And we commit to stay true to the label.

SECTION 7: Governance and ESG / Impact Considerations

Governance, ESG and impact are not side conversations

Governance in alternatives is often treated as a separate topic from return generation. In reality, it is deeply connected to return quality. In private markets especially, governance determines how information flows, how decisions are made under stress, how conflicts are handled, and how quickly an investor can identify and respond to emerging risks. In credit strategies, governance also extends to covenants, escrow controls, reporting obligations and step-in rights. In equity and real asset strategies, it shapes board influence, minority protections, capital allocation oversight and the ability to intervene when the operating thesis goes off course.

The same is increasingly true of **ESG and impact**. In the past, these were often discussed separately from the investment process. Today, that distinction is becoming less useful. For sophisticated allocators, ESG and impact considerations are relevant because they can directly affect asset resilience, regulatory exposure, operating risk, cost of capital, reputational durability and eventual exitability. In other words, they are not only ‘values’ questions; they are underwriting questions.



Investor Insight / *On readiness, we need to be realistic. You can not transform a promoter’s governance overnight. So we at Sundaram Alternates ring-fence it by structure and verify it continuously. A promoter’s willingness to accept our security and compliance architecture — the escrow discipline, the reporting cadence, the surrender of casual cash movement, is itself the clearest signal of institutional readiness.*

SECTION 8: Exit Pathways

The best method is to engineer the exit strategy at the entry

In well-underwritten private credit, the exit is not something negotiated at the end of the investment, **it is designed at entry and executed contractually** rather than left dependent on market conditions. Amortising structures with quarterly cash pays return capital steadily through the fund’s life, and asset-liability management discipline is set so that funds self-liquidate meaningfully ahead of their stated maturities rather than relying on a single back-ended event.

Equally important is what happens when a repayment is delayed. Intensive, continuous monitoring with monthly site visits, third-party project and invoice audits, periodic bank reconciliations, and ongoing tracking of escrows and covenants, is designed to surface stress well before it becomes an actual default.

Exhibit 6: When a repayment is genuinely delayed, the playbook is layered and contractual.

If repayment is delayed...	What an ideal private credit strategy does
Refinance first	Seek refinancing by a bank or NBFC, using the promoter's incentive to replace higher-cost private credit
Enforce control rights	Activate step-in rights, power of attorney, escrow controls and sale NOCs to take control of cash flows or asset sale
Use contractual protections	Enforce guarantees, post-dated cheques and penal-interest clauses built into the transaction documents
Protect capital through structure	Treat exit as an engineered event, with recovery mechanisms designed upfront rather than left to market conditions

SECTION 9: Building Resilient Portfolios

A framework for building resilient alternatives portfolios

For investors, the final objective is not simply to select good standalone strategies. It is to build a portfolio where the alternatives allocation as a whole is more resilient than the sum of its parts. Pulled together, the essentials outlined in this paper point to a consistent pattern: resilient, institutional-quality alternative strategies are distinguishable from transactional ones well before a downturn actually tests them.

The differences show up in process, not promises.

Questions every investor should ask

1. What creates value in this strategy?

Is value expected to come from business growth, active stock selection, contractual cash flows, equity-linked participation, operational improvements or long-term ownership of real assets?

2. Does the manager have a clearly articulated investment philosophy?

Can the manager explain what they invest in, and equally importantly, what they avoid?

3. Is the investment process repeatable?

Good performance may occur once. A robust investment process should be capable of delivering outcomes across different market environments.

4. How is downside risk managed?

Understanding how managers seek to preserve capital is often as important as understanding how they pursue returns.

5. What role does governance play?

Investment quality increasingly extends beyond financial metrics to include governance standards, stewardship, transparency and ESG integration.

6. Does the investment fit within the overall portfolio?

No investment should be evaluated in isolation. Every allocation should complement the broader portfolio rather than duplicate existing exposures.



Investor Insight / Returns measure outcomes. Investment frameworks explain those outcomes. Manager quality determines whether they can be repeated.

Conclusion

India's alternatives industry is scaling quickly. From a niche pool of capital a decade ago to close to ₹17.5 lakh crore in commitments today, inside a global alternatives market moving from roughly \$20 trillion to a forecast \$30 trillion⁶ by 2030. That scale brings more product choice for investors, more competition among managers, and steady improvement in regulatory infrastructure. But scale alone does not create quality. The essentials that determine whether an allocation compounds safely, the true source of cash flows, the honesty of stated liquidity, the rigor of underwriting, the consistency of governance, and the discipline of the manager matter more, as the market grows and the range of choices widens

⁶<https://www.preqin.com/future>

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