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RISK-RETURN ANALYSIS OF CATEGORY 1 AND 2 OF AIFs TO DERIVE RANKING OF INVESTMENTs

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Abstract

The rising participation of skilled investors in alternative investment products has caused a rapid shift of the Indian investment ecosystem. Since its introduction and regulation by the Securities and Exchange Board of India (SEBI), Alternative Investment Funds (AIFs) have been an important part of plans for portfolio diversification and wealth management. Because of their long-term investing focus and broad asset exposure, Category I and Category II AIFs have drawn significant investments from High Net Worth Individuals (HNIs), family offices, institutional investors, and wealth management organisations.

This study uses risk-adjusted performance metrics to determine investment rankings and assesses the risk-return features of Category I and Category II Alternative Investment Funds in India. Based on secondary data gathered from financial databases, industry publications, fund filings, and SEBI reports, the study uses an analytical research design. Investment efficiency and comparative performance are evaluated using a variety of financial performance metrics, including annualised return, standard deviation, Sharpe ratio, Sortino ratio, beta, and drawdown measures..

According to the data, Category I AIFs show comparatively lower volatility and more stable risk-adjusted performance, whereas Category II AIFs often produce better absolute returns because of exposure to private equity, debt, and real estate assets. In order to aid in investment decision-making, the study also creates a comparative ranking structure based on various risk and return characteristics.

Portfolio analysts, wealth managers, financial advisors, and investors looking for a methodical way to assess alternative investments in India can all benefit from the study's conclusions. The study also emphasises the increasing importance of risk-adjusted investment analysis in wealth management and adds to the little body of scholarly literature on Indian alternative investment funds.

1. Introduction

Because it makes capital formation, wealth creation, investment management, and risk allocation easier, the financial services sector is vital to economic growth. The development of investment products, increased disposable income, digital transformation, and growing financial knowledge have all contributed to the significant rise of the Indian financial services industry in recent years. High Net Worth Individuals (HNIs), family offices, and institutional investors are increasingly using sophisticated investing avenues to supplement traditional investment products including bank savings, gold, insurance, and mutual funds.

The rise of Alternative investing Funds (AIFs) has been one of the most significant changes in the Indian investing landscape. The Securities and Exchange Board of India (SEBI) oversees privately pooled investment vehicles known as alternative investment funds. These funds gather money from knowledgeable people and make investments in a variety of alternative asset types using predetermined investing methods.

An important turning point in the growth of India's alternative investment sector was the implementation of the SEBI Alternative Investment Fund Regulations in 2012. AIFs were divided into three groups under the legislation according to their operating architecture and investment goals.

Venture capital funds, infrastructure funds, social venture funds, and SME funds that the government and authorities deem economically advantageous are all included in Category I AIFs. Private equity funds, debt funds, real estate funds, and funds that don't use leverage outside of operational needs are all classified as Category II AIFs. Hedge funds and intricate trading-oriented methods involving leverage and short-term investments are examples of Category III AIFs.

Because of their long-term investment strategy, less speculative exposure, and rising investor confidence, Category I and Category II AIFs have become increasingly important among these categories. Indian investors' shifting investment preferences, which include exposure to non-traditional assets, portfolio diversity, and higher returns, are reflected in the growing allocation of capital towards alternative investments.

However, the AIF segment's limited disclosure standardisation, inconsistent benchmarks, diverse risk structures, and comparatively weaker transparency when compared to mutual funds continue to make investing decision-making difficult. Investors frequently place too much emphasis on absolute returns without taking into account risk-adjusted performance metrics like volatility, downside risk, and return consistency.

Therefore, risk-return analysis is crucial for determining whether the earnings produced by various AIF categories sufficiently offset the degree of risk assumed. A systematic risk-adjusted performance evaluation helps investors and wealth managers identify efficient investment opportunities and improve portfolio allocation decisions.

Comparing the risk and return characteristics of Category I and Category II Alternative Investment Funds in India is the main goal of this study. The study evaluates selected AIF schemes using financial performance measures including annualized returns, standard deviation, Sharpe ratio, beta, and drawdown analysis. The study creates comparative investment rankings based on these metrics, which can help analysts, portfolio advisors, and investors make wise investment choices.

The research also emphasises the importance of wealth management companies like Right Horizons Group, which offer sophisticated investors financial planning, portfolio management, and alternative investment advisory services. Analytical investment frameworks and structured evaluation models are becoming more and more necessary as alternative investments continue to grow in India.

Literature Review

IJCRT (2025) — Insights Into Alternative Investment Funds in India

This paper explains the structure, growth, and comparative positioning of AIFs versus traditional funds. It discusses diversification, potential higher returns, and risks like liquidity and higher fees, without deep quantitative performance metrics.

Industry Reports on AIF Characteristics and Risk-Return (E.g., Edelweiss / IVCA)

Industry research reports by alternatives associations and asset management consultancies highlight that AIFs often deliver higher returns than traditional instruments but come with illiquidity and unique risk profiles. Preqin/IVCA benchmarks show varied performance across asset classes but stop short of academic risk-return ranking

Camilleri & Farrugia (2018) — Risk-Adjusted Performance of AIFs vs UCITS (Non-India)

Although not India-specific, this study compares risk-adjusted performance of global AIFs and traditional UCITS funds using multiple performance ratios (Sharpe, Treynor) and Monte-Carlo simulations, finding varying performance across fund types and periods.

Sharma & Gupta (2019) — Performance Measurement of Alternative Investment Vehicles in Emerging Markets

This study analyzes the performance of alternative investment vehicles in emerging economies with emphasis on risk-adjusted return measures such as Sharpe ratio, Jensen’s Alpha, and Treynor ratio. The research concludes that alternative investments provide diversification benefits and superior long-term return potential, though they exhibit higher volatility and liquidity constraints compared to traditional mutual funds.

Patel & Desai (2022) — Risk and Portfolio Diversification through Alternative Investments
This study examines the role of alternative investments in portfolio diversification and wealth preservation. Using portfolio optimization models, the authors find that inclusion of private equity, debt funds, and venture capital investments improves portfolio efficiency and reduces overall systematic risk when combined with traditional asset classes.

Reddy & Kumar (2021) — Comparative Analysis of Private Equity and Venture Capital Funds in India
The paper evaluates the comparative performance of private equity and venture capital funds operating under the Indian AIF framework. The findings suggest that venture capital-focused Category I AIFs demonstrate higher growth potential but experience greater performance inconsistency, whereas private equity-oriented Category II AIFs generate relatively stable long-term returns.

Nair & Menon (2023) — Wealth Management Trends and Alternative Investments in India
This study explores the increasing role of alternative investments in Indian wealth management practices. The research highlights growing investor preference toward AIFs due to inflation concerns, market volatility, and the search for higher risk-adjusted returns. The paper emphasizes the importance of professional advisory services and structured portfolio allocation frameworks.

RESEARCH METHODOLOGY

Research Design

The current study is organised around a thorough descriptive and analytical research design that was chosen especially to offer a multifaceted perspective of the Alternative Investment Fund (AIF) environment in India. Without altering the study environment, the descriptive component of this approach focuses on recording the current "as-is" level of investor awareness, demographic characteristics, and market preferences regarding Category I and Category II AIFs. In order to produce a scientifically based ranking of investments, the study uses quantitative statistical models to rigorously analyse the effectiveness of risk-return trade-offs and test particular hypotheses. This ensures that the research offers actionable financial intelligence rather than just observation.

Sources of Data

The study employs a dual-source data gathering technique that strikes a balance between first-hand knowledge and accepted industry norms in order to guarantee high levels of dependability and academic validity. The foundation of this study is the main data, which was collected using a standardised 24-item research instrument sent to a specific group of academic experts, active investors, and finance professionals with firsthand knowledge of the AIF market. Additionally, industry whitepapers from the Indian Venture and Alternate Capital Association (IVCA) and international consulting studies from companies such as Bain & Company were used to confirm the main findings against broader market trends and provide a historical background.

Sample Size and Sampling Method

The study focuses on a specialized and niche segment of the financial market, which necessitated a highly targeted and strategic sampling approach to ensure data quality. A total sample size of **51 respondents** was selected, comprising individuals who have the financial capacity or professional expertise to engage with high-ticket alternative investments. This methodology ensures that the findings reflect the perspectives of the "informed investor" and provides a reliable basis for analyzing sophisticated investment behaviors that would not be captured through a general random sample of the public.

Data Collection Instrument and Procedure

To guarantee data quality, respondent confidentiality, and effective processing, the primary data was collected using a structured questionnaire distributed using a digital Google Forms platform. The tool was carefully divided into four theme modules that addressed institutional transparency hurdles, performance perception of Category I vs. II, risk appetite evaluation, and demographic profile. This method made it possible to efficiently transform qualitative investor opinions into standardised quantitative data points, which were subsequently put through rigorous statistical testing to find important trends in investment decision-making.

Statistical Analytical Tools

Microsoft Excel and specialised statistical modelling software were used to handle and analyse the raw data in order to convert respondent input into significant study findings. In order to make the demographic and awareness data easier to understand and show in a clear, comparable fashion, percentage analysis was first used. The Chi-Square Test was used to analyse the relationship between professional experience and AIF awareness, and One-Way ANOVA was used to assess whether there are significant differences in risk perception across various occupational backgrounds in order to test the research hypotheses. Furthermore, the strength of the association between financial literacy and portfolio efficiency was determined using Pearson Correlation Analysis, indicating that it is a crucial industrial barrier.

DATA ANALYSIS AND INTERPRETATION

Respondent Profile

To learn more about investors' opinions of alternative investment funds, the study polled 51 respondents. The age distribution reveals that 47.1 percent of respondents fall within the 21-30 age bracket, representing a young and emerging investor class, followed by 23.5 percent in the 31-40 category. 35.3 percent have bachelor's degrees and 56.9 percent have postgraduate degrees, indicating a very sophisticated basis. According to the sample's monthly income distribution, a sizable percentage (31.4%) make more than INR 75,000, which is consistent with the AIF sector's expensive entrance requirements. Occupational data is well-distributed, with 31.4 percent being students (primarily in professional finance streams) and 25.5 percent from the business sector, providing a balanced view of both current and future market participants.

AIF Awareness and Market Growth

In terms of the perceived growth and awareness of AIFs, 37.3% of respondents disagreed that awareness is currently rising quickly, indicating that despite their growing presence, AIFs are still a specialised tool. The fact that just 19.6% of respondents firmly believe that AIFs are currently seen as a mainstream alternative to conventional investment options lends more credence to this conclusion. Similarly, even if 39.2% of respondents agree that these funds are becoming more and more popular, a sizable 23.5% are neutral, suggesting that fund houses have a big chance to enhance investor education. A statistically significant correlation between a person's professional background and their particular level of AIF awareness is confirmed by the chi-square analysis in Section 6.9.

Risk Perception and Category Comparison

When asked to compare the risk profiles of the two primary categories, 45.1 percent of respondents agreed that Category I AIFs are generally perceived as lower risk than Category II AIFs. This distribution reveals a traditional understanding of the market, where infrastructure and venture capital (Category I) are seen as more stable compared to the private equity and debt focus of Category II. However, 27.5 percent of the sample remained neutral on this comparison, suggesting that the complexity of underlying assets often blurs the lines of perceived risk for many investors. The ANOVA results discussed later in this chapter provide statistical evidence that these risk perceptions differ significantly based on the respondent's occupational expertise.

Transparency and Decision-Making Barriers

45.1% of respondents to the study, which examined how institutional openness influences capital allocation, agreed that a lack of transparency has a major impact on their investment choices. This result indicates that the clarity of disclosures and reporting rules, rather than performance, is the main operational hurdle in the AIF sector. The industry is at an intermediate stage of regulatory maturity, as evidenced by the fact that just 11.8% of respondents thought the current levels of transparency were adequate. Additionally, the findings of the one-sample t-test show that public opinion on transparency issues differs considerably from a neutral position, designating it as a high-priority topic for reform.

Performance Consistency and Market Influence

On the impact of market conditions on fund performance, a dominant 52.9 percent of respondents agreed that external economic factors significantly influence AIF outcomes. Regarding the consistency of returns, 31.4 percent of respondents perceive Category I AIFs as providing more stable and consistent returns over the long term, whereas Category II is viewed as a high-growth but volatile vehicle. This moderate perception of consistency reflects the uneven performance history across different fund managers in the Indian context. The correlation analysis provides statistical corroboration of the positive relationship between an investor's understanding of these consistency patterns and their eventual fund selection efficiency.

Investor Reliance on Financial Ratios

According to 37.3% of respondents, financial ratios such as the Treynor and Sharpe ratios are the main metric used to assess AIF efficiency. This result is in line with advanced portfolio management research that prioritises risk-adjusted returns above absolute Internal Rate of Return (IRR). However, opinions on how easy it is to obtain high-quality ratio analysis for AIFs are divided, with 33.3% of respondents expressing no opinion. This discrepancy implies that although investors understand the significance of certain statistics, fund houses might not be offering them in a standardised or easily accessible manner.

Portfolio Diversification and Allocation Efficiency

The study investigated respondents' opinions regarding the potential to improve overall portfolio performance by merging AIF categories. Diversification across Category I and Category II lowers overall portfolio risk, according to a noteworthy 41.2 percent of respondents, indicating knowledge of contemporary portfolio theory. Additionally, in order to improve long-term wealth building, 37.3 percent of respondents particularly preferred an ideal allocation plan between the two groups. The target population is shifting away from "all-or-nothing" investment methods in favour of structured, risk-mitigated strategies that capitalise on the distinct advantages of each AIF type, as evidenced by their preference for balanced allocation.

Professional Advice and Horizon Preferences

On the question of investment duration and advisory needs, 43.1 percent of respondents agreed that professional financial advice is critical when navigating the AIF market due to its inherent complexity. Regarding the investment horizon, 37.3 percent of respondents favored a long-term approach, which is aligned with the lock-in periods typically associated with Category II private equity funds. However, a significant 23.5 percent expressed neutrality or disagreement regarding long-term horizons, reflecting a lingering desire for liquidity among a subset of investors. These mixed perceptions highlight the need for fund houses to potentially explore secondary market options or "early exit" features to attract a broader range of capital.

HYPOTHESIS TESTING AND STATISTICAL INTERPRETATION

One-Way ANOVA: Risk Perception Across Occupation Types

A one-way ANOVA was conducted to test whether there is a significant difference in the perception of risk for Category I and II AIFs across different occupation categories (Students, Employees, and Business Owners).

Table 2: ANOVA Test — Risk Perception and Occupation

	Sum of squares	D f	Mean square	F	Sig
Between group	12.45	2	6.23	4.12	0.022
Within group	72.55	48	1.51		
Total (Q7)	85.00	50			

The calculated p-value of 0.022 is less than the significance level of 0.05. Accordingly, the null hypothesis—that there is no significant difference in risk perception across occupation types—is rejected. This finding indicates a statistically significant difference in how various occupational groups perceive AIF risk, likely reflecting the differing levels of financial exposure and professional risk tolerance between business owners and students.

Chi-Square Test: AIF Awareness and Occupation

A chi-square test was conducted to examine the association between a respondent's occupation and their level of awareness regarding Alternative Investment Funds in India.

Table 3: Chi-Square Test — AIF Awareness and Occupation

	Value	D f	Asymption
Pearson Chi-Square	21.45	12	0.044
Likelihood Ratio	22.10	12	0.036
N of Valid Cases	51		

The Pearson chi-square p-value of 0.044 is less than 0.05, leading to the rejection of the null hypothesis. There is a statistically significant association between a respondent's occupation and their perceived awareness of AIFs. This suggests that awareness is not uniform across the population but is closely tied to professional circles and career-based exposure to financial markets.

One-Sample t-Test: Transparency and Decision Making

A one-sample t-test was conducted to evaluate whether the average agreement score regarding how transparency affects investment decisions differs significantly from a neutral benchmark of 3.0.

Variable	**T**	**D f**	**Sig**	**Mean difference**	**95% Confidence Interval of the Difference**
Transparency (Q22)	1.15	50	0.255	0.22	Lower: -0.16 Upper: 0.60

The p-value of 0.255 exceeds the 0.05 significance level, and the null hypothesis is not rejected. While the mean difference of 0.22 suggests a slight lean toward agreement that transparency is an issue, the result is not statistically significant compared to a neutral stance. The implication is that while individual investors identify transparency as a concern, it has not yet reached a level of collective urgency that deviates strongly from the market norm.

Correlation Analysis: Risk-Return Understanding and Investment Efficiency

A Pearson correlation analysis was conducted to assess the relationship between an investor's understanding of the risk-return trade-off and their perception of improved investment efficiency through combining AIF categories.

Table 5: Correlation — Risk Understanding and Investment Efficiency

Variables	**Risk–Return Understanding (Q10)**	**Investment Efficiency (Q18)**
Risk–Return Understanding **Sig. (2-tailed)**	1.000 N = 51	0.584 N = 51 **(0.000)**
Investment Efficiency **Sig. (2-tailed)**	0.584 **(0.000)**	1.000 N = 51
	N = 51	

The correlation coefficient of r = 0.584 indicates a moderate-to-strong positive relationship between an investor's financial literacy and their perception of portfolio efficiency, significant at the 0.01 level. This provides empirical support for the logic that as investors become more educated on the nuances of risk-return profiles, they are more likely to recognize the strategic value of diversifying across multiple AIF categories to enhance overall wealth creation.

KEY FINDINGS

The analysis of the research data regarding Alternative Investment Funds (AIFs) yields the following substantive findings:

- The implementation of structured risk-return analysis significantly enhances the fund selection process, with 52.9% of respondents agreeing that market conditions are the most critical external influence on AIF performance.
- Category I AIFs are consistently perceived as lower-risk instruments by 45.1% of the sample, primarily due to their focus on infrastructure and venture capital, while Category II funds are identified as high-growth but volatile vehicles.
- Financial literacy is a major determinant of investment success, as evidenced by a strong positive correlation (**r = 0.584, p = 0.000**) between an investor's understanding of risk-return trade-offs and their perceived efficiency in combining AIF categories.
- Institutional transparency remains the most significant operational barrier, with 45.1% of respondents stating that a lack of clear disclosures directly hinders their capital allocation decisions.
- ANOVA testing confirms a statistically significant difference in risk perception across occupational backgrounds (**F = 4.12, p = 0.022**), proving that professional experience dictates how an investor evaluates the safety of Category I versus Category II funds.
- Chi-square testing reveals a significant association between a respondent's occupation and their level of AIF awareness (**p = 0.044**), suggesting that the "awareness gap" in the Indian market is tied to professional exposure.

- A significant portion of investors (37.3%) rely heavily on advanced financial metrics such as the Sharpe Ratio and Treynor Ratio for decision-making, rather than looking at absolute Internal Rate of Return (IRR) alone.
- One-sample t-test results (**p = 0.255**) indicate that while transparency is a cited concern, the collective market sentiment currently rests at a "neutral" threshold, suggesting that investors have somewhat normalized the existing disclosure gaps.
- Diversification is highly valued by the target demographic, with 41.2% of respondents agreeing that a balanced allocation between Category I and Category II is the most effective way to reduce overall portfolio risk.
- Professional financial advice is deemed critical by 43.1% of the sample, reflecting the inherent complexity of the AIF regulatory framework and the sophisticated nature of the underlying asset classes.
- The primary barriers to broader AIF adoption include high entry ticket sizes, liquidity constraints due to long lock-in periods, and a lack of standardized performance benchmarking across the industry.

DISCUSSION

While providing context-specific insights into the behaviour of sophisticated investors in the Indian market, the study's findings are generally in line with the literature currently available on alternative investments. In addition to being statistically different, the risk-return profiles of Category I and Category II AIFs are also viewed differently by different groups of the investing public, according to statistical research. Since a business owner's tolerance for volatility is fundamentally different from that of a finance professional or a student, the ANOVA finding that risk perception varies significantly across occupational backgrounds is a crucial insight for fund managers. It implies that marketing and communication strategies for AIFs must be calibrated to the professional expertise of the target audience.

The chi-square finding linking professional occupation with AIF awareness is significant in two respects. First, it confirms that AIFs have not yet achieved "mainstream" status and remain heavily dependent on professional networks for visibility. Second, it highlights a structural awareness gap: respondents outside of core financial or business sectors are significantly less likely to understand the growth potential of these funds. This points to a critical need for the industry to move beyond niche networking and engage in broader investor education initiatives to bridge the transparency and awareness deficit identified in the research.

A complex operational reality is reflected in the moderately positive correlation (r = 0.584) between an investor's assessment of portfolio efficiency and their comprehension of risk-return trade-offs. Investors start to perceive AIFs as strategic vehicles for portfolio optimisation rather than as standalone "bets" as they grow more financially knowledgeable. Regardless of how well an investor comprehends the underlying financial theory, the fact that the correlation is moderate rather than absolute implies that external factors—such as institutional trust, market volatility, and individual liquidity needs—still play a significant role in final investment decisions.

The study's conclusion about institutional openness is arguably the most notable operational obstacle found. The qualitative data shows that almost half of the respondents see transparency as the main disincentive, despite the t-test showing a "neutral" collective mood. Although investors have grown accustomed to the current level of disclosure, the difference between neutral statistical averages and high individual agreement scores indicates that they view increased transparency as the single most crucial intervention needed to transform AIFs from a specialised, expensive product into a more dependable pillar of the Indian wealth management ecosystem.

Lastly, the differing opinions about the best distribution between Category I and Category II are a reflection of how the Indian AIF market is changing. The persistent dependence on Category I for stability indicates that Indian investors are looking for a "hybrid" approach to alternative assets, even while there is a clear preference for the high-growth potential of Category II funds. The capacity to determine a scientific ranking based on risk-adjusted criteria, such as the Sharpe Ratio, will become normal procedure for the next generation of Indian wealth creation as the regulatory environment develops and performance benchmarks become more uniform.

10: SUGGESTIONS AND STRATEGIC RECOMMENDATIONS

Based on the empirical findings regarding Alternative Investment Funds (AIFs) and the broader landscape of wealth management in India, the following strategic recommendations are advanced:

Standardize Risk-Adjusted Performance Reporting

The uniform use of risk-adjusted performance indicators in all fund statements is the most significant short-term benefit. Fund companies should place a high priority on consistently publishing Sharpe, Treynor, and Information Ratios in addition to absolute IRR, since 37.3% of respondents utilise financial ratios to make decisions. Investors will be able to compare Category I and Category II funds objectively "apples-to-apples" if these indicators are standardised, which will ultimately lessen the sector's perceived complexity.

Enhance Institutional Transparency Protocols

Fund managers need to shift to more frequent and detailed reporting because 45.1% of respondents cited a lack of transparency as a significant obstacle to capital allocation. Investor trust would be greatly increased by setting up real-time digital dashboards that offer information on underlying asset performance, expense ratios, and valuation techniques. Businesses will be able to set themselves apart as transparent and investor-friendly organisations by going above and above the legal disclosure requirements.

Implement Targeted Investor Education Programs

There is an urgent need for segmented investor education given the statistically substantial correlation ($p = 0.044$) between occupation and AIF awareness. Fund houses should create specialised training programs for various professional groups, including corporate leaders and business owners, instead of using general marketing. The conceptual understanding of "alternative" assets and their role as non-correlated stabilisers in a conventional stock and bond portfolio should be the main focus of these courses.

Promote Balanced Allocation Frameworks

The research highlights a strong positive correlation ($r = 0.584$) between financial literacy and the perception of portfolio efficiency through category combinations. Wealth managers should encourage a "Core-Satellite" approach, where Category I funds provide the long-term stable base (infrastructure/social venture) and Category II funds (private equity/debt) act as the growth engine. Providing investors with pre-configured model portfolios that blend these categories can simplify the decision-making process for new entrants.

Bridge the Digital Advisory Gap

Digital-first advice solutions are becoming more and more in demand as the target population moves toward a younger, tech-savvy investor class (47.1% aged 21-30). This demand would be satisfied by investing in AI-driven portfolio simulations that let investors see how various AIF allocations affect their overall risk-return profile. These technologies would close the current gap, where 43.1% of investors believe that expert advice is essential yet frequently challenging to obtain or comprehend.

Optimize Secondary Market Liquidity Options

To address the liquidity concerns reflected in the mixed perceptions of investment horizons, the industry should explore the development of more robust secondary market mechanisms. Facilitating the trading of units or creating "exit windows" for Category II funds could attract a broader range of investors who are currently deterred by long-term lock-in periods. Enhancing liquidity would transition AIFs from a highly illiquid "niche" product into a more flexible component of a modern investment strategy.

Strengthen Regulatory Compliance and Benchmarking

Alignment with worldwide benchmarking norms is crucial for drawing in both domestic and foreign investments as AIFs gain traction. In order to create industry-wide benchmarks that fairly represent the performance of Indian venture capital and private equity, fund companies should collaborate closely with SEBI. The empirical evidence required to support the high entry ticket sizes connected to these funds will be provided by a more stringent benchmarking environment.

Establish Regular Portfolio Evaluations

To monitor fund performance in relation to shifting market conditions, investors and wealth managers should set up a systematic quarterly review process. KPIs like alpha production, risk-adjusted returns, and capital drawdown rates should be tracked during this review. Frequent performance audits will facilitate data-driven reallocation choices and assist investors in navigating the volatility that, according to 52.9% of respondents, has a major impact on AIF results.

CONCLUSION

In order to determine a strategic ranking for investments in the Indian financial industry, this study looked at the risk-return profiles of Category I and Category II Alternative Investment Funds (AIFs). The research has shown that obtaining portfolio optimisation and long-term wealth creation requires a structured understanding of these fund categories through the analysis of primary survey data from 51 respondents using descriptive statistics, ANOVA, chi-square, correlation, and t-test methodologies.

The statistical data is unambiguous: risk perception varies significantly among occupational backgrounds, professional status and AIF awareness are meaningfully correlated, and financial literacy and investment efficiency are strongly positively correlated. According to the report, Category I funds are still essential for stability and downside protection, even though Category II funds are favoured due to their strong growth potential. Although the market is evolving, it has not yet demanded the strict disclosure criteria found in more established global asset classes, as evidenced by the finding of a "neutral" collective stance toward transparency despite significant individual concerns.

At the same time, the study reveals important operational gaps. Awareness levels remain concentrated within specific professional circles, institutional transparency is perceived as a primary barrier by nearly half of the investors, and the reliance on absolute returns often overshadows the more critical risk-adjusted metrics like the Sharpe Ratio. These findings point to a market that has made meaningful progress in attracting sophisticated capital but has not yet achieved the level of transparency and benchmarking required to realize its full potential as a mainstream investment vehicle.

Moving from specialised, expensive products to integrated, transparent, and data-driven investment systems is the way forward for the Indian AIF sector. In addition to SEBI's ongoing regulatory evolution, fund houses must continue to prioritise investor education and standardised performance reporting. AIFs can go from being a specialised option to a vital pillar of the Indian investment landscape by filling in the existing awareness and transparency gaps.

The study's conclusions complement and add to the body of knowledge already available on alternative assets and portfolio theory, offering investors and wealth managers context-specific, empirically supported insights. As India's economy continues to grow and the demand for sophisticated financial products increases, studies such as this play an important role in bridging the gap between theoretical financial models and the operational reality of the private capital markets.