Anti-Money Laundering (AML)– Investor Awareness Note

I. Introduction:

Neo Alternative Asset Managers Private Limited (Formerly known as Neo Asset Management Private Limited) (**"NAAM"**) is a SEBI registered Portfolio Manager and acts as an Investment Manager for Category II and Category III Alternative Investment Funds.

NAAM being a SEBI registered intermediary is required to comply with the requirements of the Prevention of Money Laundering Act, 2002 (PMLA), the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, and SEBI's Master Circular on AML/CFT obligations applicable to securities market intermediaries.

This Investor Awareness Note has been prepared to educate investors about Anti-Money Laundering ("AML"), Combating Financing of Terrorism ("CFT"), their obligations under applicable regulations, and the measures adopted by intermediaries to prevent misuse of the financial system

II. What is Money Laundering?

Money Laundering is the process by which illegal funds and assets are converted into legitimate funds and assets. Criminals attempt to introduce illegal funds into the financial system by disguising their source and ownership.

III. The Three Stages of Money Laundering:

i. **Placement:**
This is the stage wherein the illicit funds enter the legitimate financial systems.

ii. **Layering:**
Complex financial transactions are designed to distance the true owner and the source of illegal money, making it harder for the authorities to track.

iii. **Integration:**
In this the laundered money is reintroduced into the economy and returned to the launderer, in a way that makes it appear to have come from legitimate sources.

IV. Regulatory Framework:

The AML/CFT framework in India is governed by:

- Prevention of Money Laundering Act, 2002 (PMLA)
- Prevention of Money-Laundering (Maintenance of Records) Rules, 2005

- SEBI Act, 1992
- SEBI Master Circular on AML/CFT Obligations of Securities Market Intermediaries
- Guidance issued by the Financial Intelligence Unit – India (FIU-IND) and Financial Action Task Force (FATF).

All SEBI-registered intermediaries, are required to establish robust AML/CFT controls, maintain records, undertake client due diligence, identify beneficial ownership, monitor transactions, and report suspicious activities to the appropriate authorities.

V. <u>Measures Adopted by NAAM for AML/CFT:</u>

NAAM maintains a comprehensive AML/CFT programme that includes:

- Customer Acceptance Policy: Clients are onboarded only after completion of KYC and due diligence procedures
- Know Your Client ("KYC"): Identity verification is undertaken before onboarding.
- Customer Due Diligence: Risk based due diligence is conducted to understand client identity, source of funds, investment objectives, etc.
- Enhanced Due Diligence ("EDD"): EDD is undertaken for cases involving Politically Exposed Person ("PEP"), high risk jurisdictions, high risk clients, etc.
- Transaction Monitoring: Transactions are monitored on a ongoing basis to identify unusual patterns, inconsistencies or suspicious activity.
- Record Maintenance: Records of client identification, transactions, due diligence, and reporting are maintained in accordance with regulatory requirements.

VI. <u>Identification of Beneficial Owners:</u>

Where the client is a company, trust, partnership, LLP, society, or other legal arrangement, SEBI registered intermediaries are required to identify and verify the beneficial owners and controlling persons behind the entity.

Investors may therefore be asked to provide:

- Shareholding or ownership details
- Control structure information
- Trustee and beneficiary information
- Authorized signatory details
- Ultimate Beneficial Owner (UBO) declarations

VII. <u>Risk Based Approach:</u>

SEBI requires intermediaries to adopt a risk-based approach for AML/CFT compliance. Clients may be categorized into Low, Medium, or High Risk segments based on factors such as:

- Type of customer
- Nature of business

- Geographic location
- Ownership structure
- Source of wealth and source of funds
- Transaction behaviour

Higher-risk clients are subject to enhanced monitoring and periodic review.

VIII. <u>Suspicious Transactions:</u>

As part of its obligations under the Prevention of Money Laundering Act, 2002 (PMLA) and SEBI AML/CFT guidelines, a SEBI registered intermediary is required to monitor account activity and report suspicious transactions to the appropriate regulatory authorities wherever necessary.

A transaction may be considered suspicious if it appears inconsistent with the investor's known profile, source of funds, investment objectives, or normal business activities, or if it raises concerns regarding the legitimacy of funds involved.

SEBI registered intermediary are required by law to report suspicious transactions to the Financial Intelligence Unit – India (FIU-IND). Such reporting is a regulatory obligation and may be undertaken without notifying the investor concerned.

IX. <u>How investors can help/Investors Obligation</u>:

Investors can assist in maintaining a safe and transparent financial system by:

- Providing complete and accurate KYC information.
- Promptly updating any changes in personal, financial, or beneficial ownership details.
- Ensuring all investments and withdrawals are routed through their own registered bank accounts.
- Cooperating with requests for additional information or due diligence documentation.

Investors can further refer to the details / information available on the reference given below to gain more understanding on the Anti Money Laundering.

- ➢ www.fatf-gafi.org
- ➢ https://fiuindia.gov.in
- ➢ www.rbi.org.in
- ➢ Securities and Exchange Board of India

We solicit investors' co-operation to provide additional information / documents. This will help us to justify investments managed by us and comply with regulatory requirements.

This is an investor education initiative undertaken to make investors aware about AML Program.