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Bridging the Market Gap: Introduction of Specialized Investment Funds

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ABSTRACT
A segmented risk based approach has been adopted by SEBI to regulate the variety of investment products which have been discovered, introduced and evolved in the investment market over the last decade or so. The current investment market features an array of product categories in order to meet the investment requirement of varying targeted investors, from retail to that of the institutional ones. This framework and norms offered these investors the required flexibility with regard to their overall investment size and portfolio, in the respective product categories from Mutual Funds to Portfolio Management Services. But over a span of time a gap was discovered between these two product categories, on the basis of the flexibility which can be offered to the investors in their portfolio building and management. To bridge such a gap SEBI proposed to introduce a new product category or asset class namely Specialized Investment Funds.

This research aims to analyse in detail all the aspects surrounding such a new product category from its meaning, background, features, purpose, benefits and challenges to the legal framework surrounding it. It also analyses in detail its distinction from mutual funds as an investment product category to make its innovative importance clear to the reader. The research ends with precise suggestions and conclusion as to the future of the category and how it can be kept relevant over the years to follow.

Keywords: Specialized Investment Funds, Mutual Funds, Portfolio Management Services, Alternative Investment Fund, SEBI (Mutual Funds) Regulations 1996.

1. INTRODUCTION

The specialized investment fund is a novel instrument introduced by SEBI with a view to provide the investors the best of two other product categories, that is, mutual funds and portfolio management services. Previously the investors felt the need of an instrument which could provide for a higher risk taking capability as compared to the mutual funds and lower ticket size or minimum investment value as that of portfolio management services.[1] These funds prove to be such instrument.

Specialized Investment Funds have the minimum investment requirement of Rs. 10 lakhs which is lower as compared to that of a profile management services. Such funds are also featured with an advanced and diverse investment strategy allowing investment in equity, debt and hybrid financial instruments, thereby increasing the risk taking capacity of the investors.

Hence, the specialized investment fund was introduced by the board with a three tier objective. Firstly, to

[1] Groww, SEBI introduces Specialised Investment Funds – New asset class with a minimum investment of Rs 10 lakh, < https://groww.in/blog/specialised-investment-funds >accessed 8th March 2025

provide investors greater access to the high-end market through advanced risk taking options and affordable ticket prices. Secondly, to obliterates the increasing trend of investment in unregulated and unauthorized investment options. Lastly, to act as a bridge which fills the gap previously existing between two product categories in the investment market.

The major task which had to be achieved by the regulator in this regard was to ensure the smooth introduction of the product category in the market by establishing a framework for providing services under such fund. SEBI seeks to achieve it by introducing such a framework for the specialized investment funds in tandem with the existing framework for the mutual funds.

That is to say that current framework is to be used to establish and introduce the instrument into the market while maintaining the distinguished identity of the said fund. This move by the board is expected to make the entire process of investment into the new instrument easier and smooth, for all the stakeholders, mainly the investors as well as the Asset Management Companies.

This framework has been introduced by making the required amendments in the SEBI (Mutual Funds) Regulations of 1996. The act has been amended to include Chapter VI C[2], titled "Specialized Investment Funds". The chapter provides for broad guidelines with regard to the particulars and procedures surrounding the funds. SEBI has also published a detailed circular[3], which provides a comprehensive legal framework under the provisions of the Regulation of 1996.

The provisions stated in the Regulation of 1996 along with the broader guidelines in the circular are set to come into effect from April 1st 2025.

1.1 Meaning and Definition of Specialized Investment Funds(SIF)

Specialized Investment Fund has been defined under Regulation 49U(b)[4] of the SEBI (Mutual Funds) Regulations of 1996 to mean a mutual fund as defined under Regulation 2 (1)(q) of the Regulations of 1996 with the application of the necessary alterations and conditions required under the provision of Chapter VI C.

Mutual Funds have been defined under this regulation as an investment vehicle formulated to form a trust with the ultimate intent of raising "monies" by the medium of selling units of such fund to the public at large or sections thereof. Such sale is done under schemes introduced by the asset management companies for further investing the money received through such sale in:

a) Securities
b) Various money market instruments
c) Gold or its associated instruments
d) Silver or its associated instruments
e) Assets in Real Estate
f) Other instruments or assets stated by the board in this regard.[5]

The definition of mutual funds features two provisos. The first proviso allows the raising of "monies" through private placement in accordance with the guidelines of the board in case the scheme relates to infrastructure debt fund. The second proviso allows the holding of underlying goods in the event of the settlement of contracts physically when the mutual fund relates to investment in commodity derivate traded on exchanges.

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[2] SEBI (Mutual Funds) Regulations of 1996- Chapter VI C
[3] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)
[4] SEBI (Mutual Funds) Regulations of 1996- Regulation 49U(b)
[5] SEBI (Mutual Funds) Regulations of 1996- Regulation 2(1)(q)

Since mutual funds itself are formulated to form trusts, they are not required to do so again under Regulation 49U(b) for the purpose of initiating any investment strategy under SIF, provided such mutual funds are registered under Regulation 9[6].

Hence in a gist specialized investment funds can be defined as an investment vehicle which is introduced as a progressively more flexible option than the mutual funds while inheriting the basic framework of the same.

1.2 Background of SIF in India

The investment market in India is categorized with numerous investment options each having its own features and mechanisms. The investors invest in a variety of such products with an aim to either build a portfolio or upgrade the existing portfolio with the ultimate objective of earning the maximum returns. These investors invest in a product by analyzing the risks associated with it, the rewards which can be earned in the short run or the long run and the money which they are willing to invest in a particular asset class.

In India the targeted investors are usually distinguished as retail, institutional and high-net worth investors. Each distinguished class of these investors invest in a distinguished category of an investment product and the respective product category is also tailored to meet the requirements and demands of the respective targeted investor class.

For example, the mutual fund is a product category majorly associated with the retail investors due to its ticket size being on the lower end as compared to the portfolio management service with the size of Rs. 50 lakhs and the alternative investment fund, whose minimum value extends to Rs. 1 crore.

The minimum investment value in these product categories also determine the regulatory flexibility which is offered to each of such categories. That is to state that as the requirement of a minimum investment value increases in size, less strict does the norms become and vice-versa.

Hence the alternative investment fund having the largest minimum value enjoy the greatest flexibility. This phenomenon is based on the logic that an investor willing to invest such an amount in a particular category also possesses the requisite risk tolerance ability associated with it.

This flexibility associated with the construction and management of an investor's portfolio highlighted the need of a new asset class or product category. The investors failed to discover an investment product which would provide a middle ground between the two extremes, that is, mutual funds and portfolio management service.

The absence of it lead such investors to invest in unauthorized and unregistered investment schemes or products. Such investments were featured with high risk due to their unrealistic and miscalculated claims of a higher return. Such schemes eventually lead to the exploitation of the investors who were scammed with the false promises of higher yield as compared to the registered products.

Therefore, with a view to refurbish and revolutionize the investment market SEBI proposed to introduce a new asset class, namely, specialized investment funds. This product was introduced with the objective of bridging the prominent gap between the prior two investment products. The Regulator published a consultation paper[7] on July 16th 2024, highlighting the particulars and regulatory framework surrounding

[6] SEBI (Mutual Funds) Regulations of 1996- Regulation 9-The Board may register the mutual fund and grant a certificate in Form B on the applicant paying the registration fee as specified in Second Schedule.

[7] SEBI, Consultation Paper On Introduction Of New Asset Class/ Product Category, < https://www.sebi.gov.in/reports-and-statistics/reports/jul-2024/consultation-paper-on-introduction-of-new-asset-class-product-category_84789.html >accessed 8th March 2025

such proposed instrument, with the view of inviting public comment and suggestion on same.
Later such an instrument was introduced by making the necessary amendments in the SEBI (Mutual Funds) Regulations of 1996 through the SEBI (Mutual Funds) (Third Amendment) Regulations of 2024.The regulatory framework for the said instrument was detailed through the circular released by SEBI on 27th February 2025. The amendment along with the circular is set to come into effect from April 1st 2025.

1.3 Purpose or Need of SIF

The purpose or need for specialized investment fund can be concluded from its background as follows:

(a) Specialized investment funds were introduced to fill in the absence of an investment vehicle which imbibes the best features of both mutual funds and portfolio management services.

(b) SIF was needed to control the wide investment into unauthorized investment schemes leading to higher losses to the investors and a disintegrated investment market.

(c) It was introduced to create a new class of investors between retail and high net worth investors. The minimum threshold for investment deters the retail investors from investing in the fund, while attracting those investors who are willing to invest money anywhere between Rs.10-50 lakhs.

(d) It was introduced to meet the requirement of an investment vehicle with increased flexibility and risk taking capacity.

1.4 Features or Benefits of SIF

The benefits for SIF coincides with its feature as it is the distinguishing features of the instrument which provides benefits to the investors as compared to the previous product categories. Specialized Investment Fund imbibes the following features and benefits:

(a) Higher Ticket Size- SIFs feature as an affordable option to the investors. Under Regulation 49X (1) the minimum initial investment value required to be invested in a SIF across all investment strategies is Rs. 10 lakhs. The regulation provides exemption from such minimum value requirement to the accredited investors or high net worth investors.[8] This provides for inclusivity across various categories of investors while maintaining the essence of affordability.

(b) Greater Access: Due to relaxation in the restriction on investments under Regulation 49 AA[9], the specialized investment fund provides the investors greater access to the markets. For example, under the mutual funds scheme the investment in the debt instrument was restricted to 10% of the net asset value as compared to the 20% in the specialized investment fund.

(c) Higher Flexibility: SIF under Regulation 49Y (2) can only be offered as an open-ended, close-ended or interval investment strategy with proper disclosure of frequency in redemption.[10] This structure of the SIF is what adds the element of flexibility to it in portfolio management in contrast to the other investment categories.[11]

(d) Balanced Risk: Under Annexure-A,3.1[12] the investment strategy under the specialized investment fund

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[8] SEBI (Mutual Funds) Regulations of 1996- Regulation 49X (1)

[9] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA

[10] SEBI (Mutual Funds) Regulations of 1996- Regulation 49Y (2)

[11] Aishika Banerjee, Specialised Investment Funds (SIFs) – Meaning, Regulations, Taxation & More, < https://www.smallcase.com/learn/sifs-specialised-investment-funds/ >accessed 8th March 2025

[12] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 3.1

allows investment in a variety of instrument from equity to debt to hybrid instruments. While the regulations allow investment across a diverse portfolio there are certain restriction upon investment under Regulation 49AA[13] which help in maintaining a balanced approach towards a higher risk taking capability and mitigating such risks at the same time.

(e) Regulated Instrument: Unlike the previous status of investment trends in unauthorized investment channels, specialized investment fund offers the investors a professionally regulated framework for investment. Under such framework the rights and duties of all the stakeholders are clearly stated by the Regulator and the investment strategies are closely monitored to safeguard the investors from investment scams.

1.5 Challenges of SIF

The following are the challenges or factors which shall be considered by an investor before investing in specialized investment funds:

(a)Investment Threshold: Though the minimum investment threshold has been increased in the case SIF, maintaining it is in itself a task. According to Annexure-A,4.1.4[14], in case the minimum investment value of a SIF goes below such minimum requirement either due to redemption or active or passive breaches then the investor is only allowed to redeem the entire investment amount remaining from such fund.

(b) Existing Framework: Though the inculcation of the existing mutual funds framework in the introduction of the specialized investment funds may make the application of it easier in the market, it is accompanied by its own complexities. The technical nature of the specialized investment funds might make it difficult for the asset management companies to establish a specific operational mechanism for the funds within the existing mechanism for mutual funds.

(c) Limited Liquidity: While the funds are considered beneficial due to their diverse investment in equity, debt and hybrid models, as well as across various sectors, they are accompanied with a limited sense of liquidity due to such diversification. Hence as a result of investment in multiple alternative assets, these funds do not offer higher liquidity to their investors due to lack of instant buyers of such specialized assets across sector at any point in time.

(d) Market Acceptance: Despite its multiple benefits acceptance of such funds by the investors in the current investment market might be a challenge in itself. The funds being characterized by complex investment strategies, eligibility criteria, disclosure requirements might pose as a challenge for the stakeholders like investors, trustees and asset management companies to cope with.

1.6 Comparative Analysis - Mutual Funds V. Specialized Investment Funds

There are significant distinctions between mutual fund sand specialized investment funds which needs to be highlighted in order to make the utility of such funds clear and distinct from that of the mutual funds. Given below are some of the major differences between the two product categories:

a) Ticket Size: In case of a mutual fund the minimum investment value is as low as Rs. 500, and a few mutual fund schemes also accept Rs. 100 as the minimum ticket size in case of systematic investment plan (SIP). In contrast the systematic investment fund requires a minimum investment value of Rs. 10 lakhs across all investment strategies constituted under the fund.

[13] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA

[14] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 4.1.4

b) Restrictions on Investment: There are multiple basis of distinction within this category as are enlisted below:

1. **Investment in debt instrument:**
   In the case of mutual funds only 10 per cent of the total net asset value is allowed to be invested in the debt instruments by a single issuer with an extension up to 12 percent of the net asset value upon approval of the board of directors and trustees.[15] While in the case of specialized investment fund such limit has been raised to 20 per cent, with the allowable extension of 25 percent [16]
2. **Owning paid-up capital:**
   Mutual funds schemes are barred from owing more than 10 per cent of a company total paid-up capital where such capital has voting rights attached to it.[17] Whereas in case of SIF the percentage have been increased to 15%.[18]
3. **Investment in REITs and InvIts:**

- All Schemes/ Strategy: In the case of mutual funds only 10 per cent of the total units issued by a single issuer of the InvIts and REITs can be owned by the mutual fund across all scheme. [19] While in the case of specialized investment fund 20 per cent of the total units issued by a single issuer of the InvIts and REITs can be owned by all the investment strategy.[20]
- Single Scheme/ Strategy: In the case of mutual funds only 10 per cent of the net asset value can be invested in the units issued by the InvIts and REITs and in case single issuer of the InvIts and REITs only

4. percent of the net asset value is permitted.[21] While in the case of specialized investment fund only 20 per cent of the net asset value can be invested in the units issued by the InvIts and REITs and in case single issuer of the InvIts and REITs only 10 percent of the net asset value is permitted.[22]

- Derivatives: Where in the case of mutual funds derivatives are allowed to be used for the purpose of rebalancing one's portfolio or hedging, in the case of specialized investment funds they can also be used as ways to take exposure.
- Investors: While mutual funds are mainly characterized by retail investors due to its lower ticket price, the specialized investment funds are characterized with more sophisticated and accredited investors due its higher ticket size and risk taking capability.

2. REGULATORY FRAMEWORK OF SIF

The regulatory framework of specialized investment fund is encompassed in the SEBI (Mutual Funds) Regulations of 1996 from Regulation 49U to 49AD. Moreover, the detailed guidelines formulated under these Regulations is contained in the circular published by SEBI(SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26). Hence in order to understand the overall framework and norms related to these funds the Regulations are to be read in tandem with the guidelines in the circular.

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[15] SEBI (Mutual Funds) Regulations of 1996- Seventh Schedule clause 1
[16] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA (1)
[17] SEBI (Mutual Funds) Regulations of 1996- Seventh Schedule clause 2
[18] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA (2)
[19] SEBI (Mutual Funds) Regulations of 1996- Seventh Schedule clause 13(a)
[20] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA (4)(a)
[21] SEBI (Mutual Funds) Regulations of 1996- Seventh Schedule clause 13(b)
[22] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AA (4)(b)

2.1 Eligibility Criteria

Regulation 49W[23] authorizes a mutual fund registered under Regulation 9 to establish the required mechanism for the specialized investment fund. Such authorization under the regulation is subject to the eligibility criteria published by the regulator, that is, SEBI from time to time.

SEBI has released the said criteria in its circular under Annexure A, Point 1.[24]Under the said circular the regulator has specified two routes through which a mutual fund can qualify to establish a SIF. The two ways mentioned are:

- Sound Track Record: This route requires the mutual fund in question to have been active for a minimum span of 3 years and to have in last three preceding years not less than Rs. 10,000 crores, in average assets under management.
- Alternative Route: The second or the alternative way allows qualification by the appointment of a Chief Investment Officer or an Additional Fund Manager specifically dealing with the specialized investment fund. The appointment of the Chief Investment Officer leads to qualification only when such an officer has an experience of 10 years in management of funds and have managed funds worth Rs. 5,000 crores in average asset under management. The qualification requirement for that of an Additional Fund Manager is comparatively low with experience requirement of 3 years and management of funds worth Rs.500 crores.

In addition to the condition specified in both of these routes the qualification depends upon the condition that no action must have been initiated in the last three years against the asset management company under the SEBI Act 1992.

In the event of qualification under any one of the two routes the concerned mutual fund can file an application for establishment to SEBI.

2.2 Advertisement and Branding

SEBI has released detailed guidelines as to the advertisement and branding of these funds in its circular under Annexure A, Point 2.[25]The main objective of advertising and branding in relation to these funds is to establish and maintain its distinct identity. Since the Asset Management company offering services in relation to these funds also offer services in relation to the mutual funds there might be chances of such funds being passed off as mutual funds.

Hence under the said guidelines the asset management company is required to:

a) Design and maintain a distinguished name and logo for the SIF
b) In the event of use of a brand name associated with mutual funds for initial five years to enable the initial setting up and recognition of the SIF, the company shall employ phrases such as “offered by” and use a smaller font size for its name than that of the SIF brand name. These measures will ensure that it is the brand name of the fund which occupies the front stage, and will also enable the targeted customer to distinguish between the two brands of investment products offered by the company.
c) Compliance with the guidelines relating to advertisement of mutual funds in so far as they are applicable to the investment strategies under SIF.[26]
d) Establish and maintain a distinct website or page for SIF and its associated investment strategies.

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[23] SEBI (Mutual Funds) Regulations of 1996- Regulation 49W (1)
[24] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 1
[25] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 2
[26] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AB (2)

e) Maintain the distinct identity of the specialized investment fund in a manner in which they are clearly distinguished from the mutual funds.[27]

2.3 Investment Strategies

Under Regulation 49U(c) investment strategy have been defined as a mutual fund scheme which is launched under the aegis of the specialized investment fund.[28] Hence the investment strategies under SIF is launched in a manner and following a procedure similar to that of a mutual fund scheme under Regulation 28. The Mutual Funds Regulations also provide the board the authority to specify the nature, type and particulars surrounding such strategy.[29]

The board has thereafter enunciated in detail the type of investment strategies which can be introduced in the market under SIF in its circular under Annexure A, Point 3.[30]Given below are the strategies approved by the board:

Equity Oriented Strategies: The board has permitted three main strategies to be launched under the umbrella of this strategy:

1. **Equity Long Short Fund:** The strategy requires minimum 80 per cent investment into the equity and its associated instruments and allows a maximum 25 percent investment in unhedged derivative position in such equity instruments, thereby creating a short exposure.
2. **Equity Ex-Long Short Fund:** The strategy requires minimum 65 per cent investment into the equity and its associated instruments and excludes by way of market capitalization top hundred stocks. It also allows a maximum 25 percent investment in unhedged derivative position in such equity instruments with the above exclusion, thereby creating a short exposure.
3. **Sector Rotation Long Short Fund:** The strategy requires minimum 80 per cent investment into the equity and its associated instruments of not more than four sectors and allows a maximum 25 percent investment in unhedged derivative position in such equity instruments, thereby creating a short exposure.

Debt Oriented Strategies: The board has permitted two main strategies to be launched under the umbrella of this strategy:

1. **Debt Long Short Fund:** The strategy allows investment into debt instruments and is inclusive of the investment in debt derivative instruments traded on exchanges, to create an unhedged short exposure.
2. **Sectoral Debt Long Short Fund:** The strategy requires investment in debt instruments of minimum two sectors, while limiting the maximum investment in one sector to 75 percent. It also allows a maximum 25 percent investment in unhedged derivative position in such debt instruments, thereby creating a short exposure.

Hybrid Investment Strategies: The board has permitted two main strategies to be launched under the umbrella of this strategy:

1. **Active Asset Allocator Long Short Fund:** The strategy allows a diverse portfolio construction through investment in debt, equity, real estate, infrastructure and derivatives. Like all the above strategies it allows a maximum of 25 percent investment in unhedged derivative position in equity and

[27] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AB (1)
[28] SEBI (Mutual Funds) Regulations of 1996- Regulation 49U (c) "Investment Strategy" means a scheme of mutual fund launched under the Specialized Investment Fund.
[29] SEBI (Mutual Funds) Regulations of 1996- Regulation 49Y (1)
[30] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 3

debt instruments, thereby creating a short exposure.

2. **Hybrid Long Short Fund:** The strategy is mainly concerned with balancing the equity to debt investment ratio in one's portfolio. Hence it requires a minimum 25 per cent investment into the equity and its associated instruments and 25 per cent investment into the debt and its associated instruments. Lastly it has a similar short exposure limit as that of the previous policy.

Though these strategies provide a diverse variety of options to the investors under SIF, the introduction of all at once in the market would pose the risk of proliferation of these strategies. Hence to overcome the same the board has allowed the launch of only one strategy from each category.

A brief understanding of the above mentioned strategies makes it clear that all the investment strategies under the aegis of Specialized investment fund allows investment in derivatives. The maximum unhedged short exposure which is allowed under all such schemes in permitted derivative instruments traded on exchanges is 25 percent of the total net asset value for meeting any purpose other than portfolio rebalancing or hedging.[31]

2.4 Subscription and Redemption

There are multiple ways in which an investment strategy may be introduced in the investment market. It could be open-ended, close-ended or interval strategy with varying frequency in relation to subscription and redemption.[32]

Therefore the board has made an attempt to explain upon these frequency of subscription and redemption in its circular under Annexure A, Point 7.[33]According to the said guidelines in the circular these frequencies are determined on the basis of the nature of an investment under the respective strategy, which could be:

a) Daily- for example, all the equity oriented strategies have daily redemption frequency
b) According to the guidelines of the board all the strategies with a frequency other than the daily one are to be termed as an interval investment strategy.
c) Weekly- for example, all the hybrid (twice in a week) and debt (once in a week) oriented strategies have weekly redemption frequency
d) The asset management company may decide a varying frequency according to their requirement which could be:
e) Fortnightly
f) Monthly
g) Quarterly
h) Annually
i) Fixed Maturity
j) Other satisfactory intervals

The determination of the frequencies is highly based on the question of liquidity. That is how do the asset management companies would like to manage their liquidity in reference to such funds so as to ensure that their investors do not feel constricted due to such investments.

Another question which has to be answered in relation to redemption would be the notice period. Usually

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[31] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 6.1.1
[32] SEBI (Mutual Funds) Regulations of 1996- Regulation 49Y (2)
[33] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 7

the notice period does not extend more than 15 working days and the investor redeeming his funds receives the sale proceeds of the units based on the net present value at the end of the notice period.
Moreover, as the units of all close and interval investment strategies are required to be listed on a recognised stock exchange, the investors enjoy an exit option after redemption of their funds.

2.5 Minimum Threshold and Breach

The circular under Annexure A, Point 4,[34]upholds the minimum investment value of Rs.10 lakhs as stated under Regulation 49 X(1).The circular further clarifies this requirement and states that:

a) That this limit of ten lakh refers to the value of aggregate investment across all the strategies under the ambit of SIF.
b) That this limit is exclusively applicable to investments under SIF and are not inclusive of the ones made under any scheme of mutual funds.
c) That the asset management company shall enjoy the option of providing systematic investment options in form of withdrawal plan or transfer plan or investment plan while fulfilling this requirement of a minimum investment value.

The duties of the asset management companies with regard to the compliance of such requirement of minimum investment threshold is:

a) To avoid any active breaches due to redemption activities of the investors the company should carry out monitoring on a daily basis.
b) To coordinate with various other bodies like stock exchanges to enable efficient monitoring.
In the event of any passive breaches (which does not arise from any omission of the company) due to decline in the NAV the investors are allowed to redeem only the remaining amount from the investment strategy or SIF.

2.6 Benchmarking of Strategies

The guidelines issued in the circular under Annexure A Point 9[35] states the benchmarking structure and method to be followed in case of specialized investment fund. It states that the investment strategies under the fund must follow a benchmarking structure which is single-tier in nature or the asset management company may follow a second tier structure as the one applicable to the mutual fund schemes in its discretion.
The process of benchmarking is initiated with the asset management company selecting a benchmark index from any available market indices based on the investment portfolio and objectives under the strategy. This process of selecting might be based on different principles for different strategies like:

a) Equity oriented strategies must be compared to an apt market index which is broad in nature like the NSE Nifty or BSE Sensex etc.
b) Debt oriented strategies must be compared to an apt market index which is broad in nature and is a comprehensive portfolio representative.
c) Hybrid investment strategies must be compared to any available and apt market index which is broad in nature.

[34] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 4
[35] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 9

2.7 Disclosure in Offer Document:

An offer document poses as a guide to the investors while making any investment decisions as it encompasses in itself all the required particulars related to an investment vehicle. Hence the board promptly regulates the contents which are required to be disclosed in such document to ensure safety of the investors in the market.

Even in the case of specialized investment funds certain mandatory disclosure have to be made in order to allow the investor to know beforehand the risks and rewards associated with a particular investment strategy.[36]The disclosures to be made under the fund in the offer document are as follows:

a) Risky nature of the product through risk band (from lowest 1 to highest 5 rating criteria)
b) Subscription and redemption frequency of a strategy
c) Notice period
d) Portfolio disclosure frequency
e) Analysis of scenarios for derivative positions
f) Disclosure of the investment in derivatives
g) Disclosure as to the compliance with the maximum permissible limit of investing in derivatives.
h) Disclosure as to the tools used and applied for management of liquidity risks
i) Any other information required to be stated.[37]

2.8 Disclosure by AMC:

The asset management company is required to make four basic disclosures with regard to the specialized investment funds as:

(a) Portfolio Disclosure: The asset management company along with the Association for Mutual Funds in India (AMFI) are required to publish on their respective websites the portfolio constructed and managed under any investment strategy of SIF. Such a disclosure must be made every alternative month and within ten days from the end of such month.
(b) Scenario Analysis: In order to enable the investors to predict the losses expected from a particular investment due to the unpredictable market movement, the Investment Strategy Information Document must disclose a scenario analysis.
(c) Disclosure of Offer Document: The offer document pertaining to an investment strategy under SIF is required to be disclosed publicly on the website of the AMC and AMFI
(d) Disclaimer: A standard disclaimer must be attached to each advertisement of such fund in a font size which is legible to the reader to an effect that such investment involves higher risk including liquidity risk which may lead to a potential capital loss to the investor and hence the investment decision must be made after careful analysis and reading of all the documents pertaining to such investment.

3. SUGGESTIONS:

1. Distinct Regulatory Framework

Though the current framework associated with specialized investment fund is an extension of the existing framework for mutual funds, there is a requirement for a distinct framework solely for SIF. That is to state that owing to the complex nature of the investment strategies under SIF the board can after a few years

[36] SEBI (Mutual Funds) Regulations of 1996- Regulation 49AD
[37] SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/26(February 27th 2025)- Annexure A Point 11

after its market release try to formulate a regulatory mechanism and framework solely for SIF rather than including it as an extension of mutual funds.

2. Investor Awareness

Since specialized investment fund is a relatively new investment vehicle in the market the board in collaboration with the asset management companies, trustees, mutual funds association and other stakeholders organize various awareness programmes and workshops. Such awareness schemes could be centered around educating the investor in regards to the investment strategy which would be best suited to objectives of his investment.

3. Risk Monitoring

Specialized Investment Funds are characterized with higher risk as compared to mutual funds. Hence concrete steps must be undertaken by the AMC under the guidance of the regulator to formulate airtight risk management mechanisms and procedures which shall be disclosed to the investor in the offer document along with the risky nature of the product category.

4. Compliance Disclosure

In addition to the disclosures made by AMC, they must also be mandated to disclose the compliance of the guidelines issued by the board. That is to state that they must disclose in a comprehensive manner the appointment of necessary personnel holding expertise to deal with such complex fund, internal control systems put in place, and liquidity risk management mechanisms.

4. CONCLUSION:

The new investment vehicle is a novel development in the current landscape of investment in India and poses the potential of revolutionizing the investment market. Through its comprehensive investment strategies, the vehicle aims to fulfill multiple needs of an investor through a single product category thereby adding sophistication to the overall market scenario.

Moreover, the said product category also brings the countries financial arena at par with the global financial market by offering the investors a wider variety of regulated product categories and diversification within such categories. Countries characterized with mature financial markets like Australia and USA have also allowed similar investment products like Inverse Funds (Australia) or Liquid Alternatives or Hedge Funds (USA) to be introduced within their financial markets.

In conclusion with the introduction of this new asset class India has also joined the global bandwagon of having with its investment market, an investment product characterized with greater returns and flexibility.