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## Specialized Investment Funds in India: Bridging the Gap Between Traditional Mutual Funds and Portfolio Management Services

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### Abstract

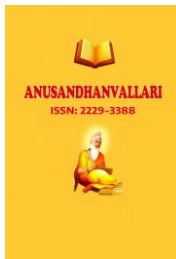
In February-April 2025, the Securities Exchange Board of India (SEBI), India's securities regulator, released Specialized Investment Funds (SIFs), a new type of mutual fund product aimed to bridge the gap between ordinary mutual funds and more expensive PMS/AIF vehicles. With a minimum investment requirement of Rs 10 lakh, SIFs allow for advanced strategies such as equity and debt long-short, rotation of sector, and hybrid long-short. This article elucidates the SIF framework, contextualizes it among current pooled vehicles, and evaluates its short- and medium-term impacts on various aspects of India's mutual fund industry, including product design, distribution, and competition for high-net-worth investors, governance, operations, and taxation. We conduct Policy analysis of SEBI circulars, cross-referenced with reliable news and industry insights, to formulate evidence based propositions regarding AUM flows, margins, market structure and investor protection. Our research indicates that SIFs have the potential to: (i) increase the affluent segment that AMCs can reach; (ii) partially cannibalize equity/hybrid MF AUM among HNIs while returning some PMS/AIF demand to regulated pooled funds; (iii) increase operational and brand-segregation costs; and (iv) increase performance dispersion and product risk, necessitating stricter disclosures and compliance checks.

**Keywords:** Alternative Investment Funds (AIF), Capital Gains Taxation, Equity long-short strategies, High Net Worth Investors (HNI), Investor Protection, Minimum Investment Threshold, Mutual Fund Industry, Portfolio Management Services (PMS), SEBI Regulations, Specialized Investment Funds (SIF).

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### 1 Introduction

The Mutual Fund industry in India has traditionally focused on long- only, diversified strategies for retail investors. More complex and concentrated strategies were provided through Alternative Investment Funds (AIFs) and Portfolio Management Services (PMS), which had high premium tickets (most AIFs were 1 crore, where PMS required Rs 50 lakh). In late 2024 and early 2025, the Securities Exchange Board of India (SEBI) revised the Mutual Fund Regulations and released a special framework for "Specialized Investment Funds (SIFs)," a new product class within the Mutual Fund regulatory framework that targets the wealthier, more seasoned investors with minimum investment of Rs 10 lakh and authorization to execute more complex strategies such as sectoral rotations, long-short (equity and debt) strategies (SEBI,2024; SEBI, 2025a; SEBI, 2025b; Reuters, 2025a). Several Asset Management Companies (AMCs) are developing or have got approval to launch SIFs particularly equities long-short strategies, according to early industry comments (Economic Times,2025a; Economic Times,2025b;Reuters, 2025b).



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## 2 Literatures Review & Regulatory Background

### 21 From AIFs/SSFs to SIFs

Special Situation Funds (SSFs), launched in 2022 to invest in stressed assets, are among the specialized vehicles that are part of India's AIF ecosystem, which has expanded quickly since 2012 (SEBI, 2022; Jain & Pradhan, 2025). AIF expansion and HNI's use of Portfolio Management Services (PMS) demonstrated differences between retail-focused MFs and expensive discretionary /alternative products (IJRASET, 2024; Vivriti AMC, 2025). With greater sophistication and a minimum of Rs 10 lakh, SIFs seek to close this gap within Mutual Fund framework (SEBI, 2025a; JM Financial Services, 2025).

### 22 The SIF Framework & its key strategies

- **Regulatory basis**

SEBI's MF (Third Amendment) Regulations, 2024, and circular "Regulatory framework for Specialized Investment Funds," February 27, 2025, effective April 1, 2025; with clarifications on April 9 and templates/ISID formats on April 11, 2025 (SEBI, 2024; 2025a; 2025b).

- **Minimum threshold of Investment**

Rs 10 lakh for each investor; SEBI later set a monitoring mechanism and unit-freeze/redemption rules if holding fall below the threshold (Economic Times, 2025c; Reuters, 2025a).

- **Qualified Strategies**

Sector rotation long-short, equity long-short, debt long-short, sectoral debt long-short, equity ex-top -100 long-short, hybrid long-short are some prescribed eligible strategies. Open /interval structures are allowed; close-ended SIFs are required to list for exit liquidity (SEBI, 2025a; Reuters, 2025a; Industry summaries).

- **Governance and Branding**

Distinct branding and disclosures to separate higher-risk SIFs from conventional Mutual Funds offerings (Reuters, 2025a; SEBI, 2025a).

- **Tax implication**

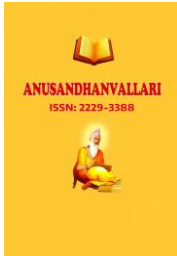
With variations by asset mix and holding duration, SIF taxes adheres to the revised mutual fund capital gains regime following the Budget 2024 adjustments e.g., 20% Short Term Capital Gains and 12.5% Long Term Capital Gain for equities; debt frequently at slab, subject to rules and regulations (AMFI advice; industry explanations).

## 3 Research Methodology

**Design:** Qualitative policy analysis with triangulation.

**Sources of Data:**

1. Primary regulatory texts- SEBI Circulars/Regulations on SIFs (Dec16, 2024; Feb 27, 2025; Apr 9 & 11, 2025).
2. News reports on SIF launches and strategic positioning (Economic Times, Reuters).
3. Secondary industry commentary summarized strategy menus, redemption structures, monitoring mechanisms and operation implications.



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#### 4 Approach to Research:

- Extract core SIF requirements like investment, strategy menu, structure, branding, listing requirements from SEBI published materials.
- Cross-Validate with reputable news sources for implementation details and early market response.
- Thematic analysis of consequences for the mutual fund sector, including product design, distribution, investor base, risk, economics, and regulation.

#### Limitations:

SIFs are newly launched; limited realized performance data and Asset Under Management (AUM) time series exist. Findings regarding AUM flows, margins, and competition are forward-looking propositions.

SIFs maintain the pooled-vehicle, trustee-custodian structure and governance of mutual funds, while permitting more sophisticated strategies like long-short at mid-ticket size, smaller than PMS/AIF but greater than MF minimums (SEBI, 2025a; Reuters, 2025a; Economic Times, 2025a). In comparison, PMS is individualized and discretionary, whereas AIFs provide for broad alternative exposures but require Rs 1 crore minimums and a new regulatory environment (AIF Regulations). SIFs thus target wealthy but not ultra-high net-worth investors seeking advanced strategies with MF-style transparency and compliance (JM Financial Services, 2025; Lexology, 2025).

#### 5 Anticipated Impact on the Mutual Fund Industry

##### 51 Market Segmentation and AUM Flows

###### Hypothesis 1: Expansion of the wealthy segment within MF platforms.

The Rs 10 lakh floor may increase AMC addressable AUM without requiring investors priced out of PMS/AIFs to adopt higher-risk strategies (SEBI, 2025a; Reuters, 2025a). Strong equities quant/derivatives capabilities enable AMCs to direct new investments into SIFs over the medium term, particularly in sector rotation and equity long-short products (Reuters, 2025a).

###### Hypothesis 2: Partial cannibalization of existing MF categories among HNIs.

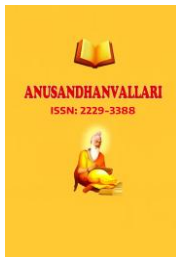
HNI funds that are now invested in sector, aggressive hybrid, or small /mid-cap MFs may switch to SIFs in order to short positions for downside hedging or higher risk-adjusted alpha. If SIF strategies produce distinct results, this re-mix may increase stickiness among wealthy generations while decreasing AUM growth in certain conventional high-beta categories during risk-on stages (Economic Times, 2025a).

###### Hypothesis 3: Competitive pressure on PMS/AIFs.

By combining sophistication with MF-grade governance, reduced operational frictions, and exchange-listing for close-ended strategies, SIFs may repatriate a portion of PMS/AIF demand to the Mutual Fund channel (SEBI, 2025a; Reuters, 2025a). But private-asset exposures and fully customized mandates are still PMS/AIF domains.

##### 52 Product Design and Risk

With redemption frequency varying from daily to weekly/interval depending on strategy, SIFs permit explicit long-short exposures in debt and equity, sector concentration up to predetermined limits, and hybrid long-short mixes. For liquidity, close-ended SIFs have to list (SEBI, 2025a; 2025b; Reuters, 2025a). As a result, the outcomes



are more widely distributed than with traditional mutual funds, increasing the value of risk disclosures, VaR/derivatives controls, and stress testing.

### **53 Distribution and suitability**

With a Rs 10 lakh minimum and higher-risk branding, AMC's must segregate distribution (RIAs/wealth desks) and conduct thorough suitability checks. SEBI also implemented monitoring investment threshold (unit freeze/redemption if surpassed), requiring AMC's and platforms to construct threshold-tracking and client-alert systems (Economic Times, 2025c).

### **54 Operational and Governance Implications**

In addition to possible exchange-listing procedures for close-ended products, SIFs demand unique branding and better disclosure templates (ISID formats). In keeping with iterative rule-making, the April 2025 clarification also provides particular alleviation for interval-strategy maturity constraints (SEBI, 2025b: April 9 clarification). These provide a standardized shelf for strategy innovation, but also increase the short-term compliance and systems expenses for AMC's (SEBI, 2025b; Taxguru, 2025).

### **55 Economics (Fees, Margins and Capacity)**

Compared to vanilla Mutual Funds, SIFs may support premium price due to their greater complexity (yet constrained by MF-style monitoring). Operating margins for AMC's with demonstrated long-short competence may increase if penetration is robust among wealthy clients. However, performance dispersion may exacerbate competitive dynamics among AMC's, and capacity constraints particularly in long-short mid/small-cap or sector-rotation, may necessitate soft closes (Reuters, 2025b).

### **56 Tax Regime and Investor Behaviour**

Changes made after Budget 2024 raised the equity capital-gain tax rates (Long Term Capital Gain to 12.5%, Short Term Capital Gain to 20%), which are applicable to equity-oriented SIFs and equity-oriented mutual fund products. Like modern debt MFs, debt-oriented SIFs often follow slab-based treatment (subject to the evolving tax code). Longer holding durations and a tax-aware turnover-focused SIF strategy design could be the outcome from these changes (Reuters, 2024; AMFI, 2024; Industry explainers, 2025).

## **6 Initial Market Signals**

Multiple large AMC's have expressed interest or received approval to launch SIFs (e.g. Bandhan AMC's platform announcement), with a focus on equity long-short variants, in line with global trends toward tactical strategies in public-markets wrappers (Reuters, 2025b; NISM, 2025). These signals suggest accelerated product shelf development in Financial Year 2025-26 and rising competition for wallet share among wealthy investors.

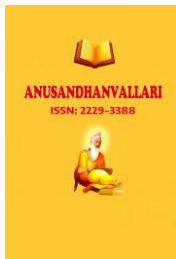
## **7 Policy and Investor-Protection Considerations**

### **• Disclosure discipline**

The ISID templates and distinct branding should be applied to emphasize leverage/short-exposure risks, concentration, liquidity terms, and scenario analysis.

### **• Suitability Filters**

RIAs and platforms should gate SIF sales with knowledge and experience checks, and goal based fit.



- **Risk Limits and Surveillance:**

AMCs must monitor the Rs 10 lakh level and have strong derivatives risk management (counterparty, margining, and liquidity under stress).

- **Reporting Performance**

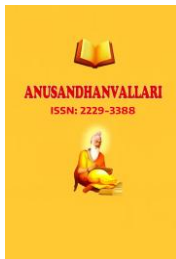
To preserve comparability, regulators and AMFI should take into account category-level performance and risk disclosures such as gross vs. net, drawdowns.

## 8 Conclusion

By permitting complex strategies under the mutual fund regime while maintaining regulatory safeguards and pooled-fund transparency, SIFs strengthen India's on-shore product architecture. They are likely to (a) enhance the affluent MF investor base, (b) partially cannibalize HNI allocations from aggressive long-only MF categories while competing with PMS/AIFs, (c) rise operating and branding complexity for AMCs, and (d) increase the need for risk-aware distribution and investor education. Realized performance through full market cycles, capacity management, and the quality of governance and disclosures will ultimately determine the influence on industry structure and investor outcomes.

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