

Specialised Investment Funds: Gateway to better risk-adjusted returns



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Non-Resident Indians (NRIs) occupy a distinctive position among investors bullish on India's growth story. Eager to participate in the country's expanding economic momentum, many NRIs nevertheless find their ambitions constrained by regulatory complexity, currency risk, and the challenges of investing from afar.

In periods marked by heightened market volatility, the introduction of Specialised Investment Funds (SIFs) has offered a compelling solution. These funds enable participation in equity market upswings while providing meaningful downside protection, all within a streamlined and tax-efficient structure.

As the investment landscape evolved, the gap in investment flexibility between mutual funds and portfolio management services widened, leading to the need for an additional category of investment product. To address this gap, SEBI amended the SEBI (Mutual Funds) Regulations, 1996 and introduced a regulatory framework for a new investment product called the Specialized Investment Fund.

SIFs are pooled investment schemes launched by mutual fund houses. Depending on the objective, they invest in equities, debt, or both, and are offered under a separate brand to distinguish them from regular mutual funds.

What sets SIFs apart is their ability to use advanced strategies, including both long and short positions. Simply put, the manager can buy stocks expected to rise and short those expected to fall, allowing more flexibility across market cycles.

Specialized Investment Funds (SIFs) are structured to follow three broad categories of investment strategies: Equity oriented, Debt oriented and Hybrid, with specific sub-strategies defined under each category.

Category	Asset Allocation	Short Exposure
Equity-Oriented Investment Strategies		
Equity Long-Short Fund	Min. 80% in equity and equity related instruments	Max. 25% of the corpus
Equity Ex-top100 Long-Short Fund	Min. 65% in stocks outside the top 100 by market cap	Max. 25% of the corpus
Sector Rotation Long-short fund	Min. 80% in stocks across maximum four sectors	Max. 25% of the corpus. Short exposure applies at sector level
Debt-oriented Investment Strategies		
Debt Long Short Fund	Invest in debt instruments across durations	Max. 25% of the corpus through exchange traded debt derivatives
Sectoral Debt Long-Short Fund	Investments in debt instruments of issuers from at least two sectors. Exposure to any single sector capped at 75%	Max. 25% of the corpus. Short exposure applies at sector level
Hybrid Investment Strategies		
Active Asset Allocator Long-Short Fund	Invest across equities, debt instrument, units of real estate investment funds (REIT) and infrastructure investment funds (INVIT) and commodities	Max. 25% of the corpus
Hybrid Long Short Fund	Min. allocation of 25% each to equities and debt instruments	Max. 25% of the corpus

Among equity-oriented strategies, Equity Long-Short Fund offers relatively higher freedom to the fund manager to choose stocks. This can be compared with a flexi-cap investment strategy with a provision to short stocks. Equity Ex-top 100 Long Short Fund is a small and mid-cap oriented portfolio, which may suit aggressive investors. Sector Rotation Long-Short Fund can benefit from investments in sectors in both bullish and bearish phases.

Fixed income strategies may suit investors seeking opportunities in the bond market. Hybrid strategies aim to combine the benefits of equities and fixed income. Some strategies mentioned above stipulate that short exposure applies at sector level. It means that if a stock (or a security) is shorted, the fund manager cannot take a long position in any other from the same sector.

While these strategies may sound a bit complex for first-time investors, they can improve the risk-reward profile of diversified portfolios. Investors seeking exposure to an asset class without taking significant downside risk may find SIFs a worthy option. As these schemes employ long-short strategies, they can take advantage of rising stocks and profit from falling ones. During bearish phases, fund managers can reduce downside by shorting weak stocks. However, SIFs may not top performance charts in a raging bull market, where long-only strategies tend to deliver higher returns.



A look at some key aspects helps clarify the positioning of these products.

Mid-market positioning: SIFs open the door to sophisticated investment strategies at a relatively accessible ticket size of Rs 10 lakh, while accredited investors can participate with as little as Rs 1 lakh. This bridges the gap between mutual funds and portfolio management services and AIFs which have minimum investment thresholds of Rs 50 lakh and Rs 1 crore, respectively.

Focus on risk-reward: Many investors begin with focus on maximising returns, but with time, the importance of risk management becomes clearer. SIFs cater to this need by aiming to deliver superior risk-adjusted returns. Savvy investors with a large corpus, looking for wealth preservation and growth, may find SIFs appealing. These may include NRIs who do look to invest their hard-earned wealth pools with an eye on healthy risk-reward.

Derivatives sans leverage: While SIFs are allowed to use unhedged derivatives for shorting, the overall short exposure is capped at 25% of the scheme's corpus. Also, the gross exposure of an SIF – combining both long and short positions, cannot exceed 100% of the corpus. In contrast, AIFs can have gross exposure of up to 200%, while mutual funds are not permitted to use derivatives for shorting and may use them for hedging purposes. Thus, SIFs emphasise the prudent use of derivatives, which improves risk-adjusted returns.

Taxation:

Equity-oriented SIFs (those with at least 65% in equity):

- **Long-term capital gains (LTCG)** - Gains on units held for more than 12 months are taxed at 12.5%, with an annual exemption on the first ₹1.25 lakh of gains.
- **Short-term capital gains (STCG)** - Gains on units sold within 12 months are taxed at **20%**.

Debt-oriented SIFs (predominantly fixed-income exposure): Gains are taxed at the investor's **applicable income-tax slab rate**, regardless of holding period.

Hybrid strategies with mixed exposure follow equity tax treatment if equity exposure meets thresholds; otherwise, gains are taxed at slab rates.

Accessibility: While SIFs offer sophisticated investment strategies, they also provide the convenience and simplicity. In addition to being transparent and tightly regulated, SIFs allow systematic investment plans (SIP). After making the minimum investment, the investor may opt for SIPs, as allowed by the AMC. Net asset values are declared daily and equity strategies allow transactions at end of day NAVs, while hybrid strategies may permit transactions only twice a week. This gives SIFs an edge over AIF on the liquidity parameter.

In the light of the above, SIFs appear to be entering the early stages of a high-growth phase. The total assets under management stood at Rs 4,892 crore as on December 31, 2025, as per the monthly data released by Association of Mutual Funds in India.

Investors, especially non-resident individuals (NRI), may find SIFs particularly lucrative, as they are exposed to sophisticated investment strategies globally. Through SIFs, they can now access similar strategies in India in a regulated framework. The digital ecosystem further enhances accessibility.

SIFs can serve as an effective diversification tool for savvy investors. They complement traditional long-only mutual funds and other investment products by offering a different risk-return profile. By adding SIFs, investors can potentially improve portfolio balance and pursue their financial goals with greater confidence.