

## SIFs: Middle ground between Mutual Funds and PMS/AIFs



India's investment landscape is steadily evolving, with investors increasingly seeking solutions that go beyond traditional investing while still offering regulatory comfort and transparency. While Mutual Funds (MFs) have long been the preferred investment avenue for retail investors due to their accessibility and simplicity, many affluent investors often look for more flexible and sophisticated strategies. On the other hand, Portfolio Management Services (PMS) and Alternative Investment Funds (AIFs) provide advanced portfolio flexibility and customized strategies, but typically come with significantly higher investment thresholds lower transparency.

To address this gap, SEBI has introduced Specialised Investment Funds (SIFs) – a new category designed to combine the transparency and governance standards of Mutual Funds with the portfolio flexibility generally associated with PMS and AIFs.

### Understanding the Investment Gap

Traditional Mutual Funds are built for mass participation, with investments starting from as low as Rs 500. They offer diversified investment opportunities, strong regulatory oversight, and high transparency, making them suitable for a wide range of investors. However, they are generally restricted to long-only strategies with limited portfolio flexibility and derivative exposure.

At the other end of the spectrum, PMS and AIFs cater primarily to HNIs and Ultra-HNIs. These structures provide customized portfolio construction, tactical investment approaches, and sophisticated long-short strategies. However, they often require much higher minimum investments is Rs 50 lakh & Rs 1 crore respectively.

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This created a gap for affluent investors who sought greater flexibility than traditional mutual funds but without the very high entry barriers associated with PMS and AIFs.

## SIFs: A Middle Ground

SIFs aim to bridge this space by offering a balanced proposition — combining regulatory transparency with enhanced investment flexibility. Positioned between Mutual Funds and PMS/AIFs, SIFs are designed for investors seeking more sophisticated strategies within a regulated framework.

SIFs occupy a unique position between traditional Mutual Funds and sophisticated PMS/AIF structures. While Mutual Funds focus on simple long-only strategies with broad retail participation and high transparency, PMS and AIFs cater largely to HNIs and Ultra-HNIs through customized and flexible investment approaches that require significantly higher investment amounts. SIFs bridge this gap by offering long-short capabilities, greater portfolio flexibility, and controlled derivative exposure within a regulated and transparent framework. With a relatively moderate minimum investment threshold of around Rs10 lakh, SIFs are designed for affluent investors seeking more advanced investment strategies without moving entirely into the high-ticket alternative investment space.

### 1. Moderate Investment Threshold

SIFs are targeted toward affluent and HNI investors with a minimum investment requirement of Rs 10 lakh.

### 2. Enhanced Portfolio Flexibility

Unlike traditional mutual funds, SIFs can adopt long-short investment strategies and use derivatives more actively, including limited unhedged short exposure of up to 25%.

### 3. High Transparency

A major advantage of SIFs is that they continue to operate within a highly regulated mutual fund-style framework, ensuring strong disclosure standards and transparency for investors.

### 4. Controlled Risk Framework

While SIFs provide greater strategy flexibility, leverage is not permitted, helping maintain a balanced risk structure and investor protection framework.

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## Who could consider SIFs?

SIFs may be suitable for investors who:

- Have moved beyond basic mutual fund investing
- Seek differentiated investment strategies
- Prefer a regulated and transparent structure
- Want exposure to tactical or long-short investing approaches
- Are comfortable with moderately higher complexity and risk

They may particularly appeal to affluent investors looking for more sophisticated investment opportunities

## Why SIFs matter?

The introduction of SIFs reflects the growing maturity of India's investment ecosystem. As investor awareness and sophistication increase, the demand for more flexible and innovative investment products is also rising.

SIFs represent an important step toward expanding investment choices by creating a category that balances:

- Accessibility
- Flexibility
- Transparency
- Regulatory oversight

## Final Thoughts

Specialised Investment Funds represent a significant evolution in India's investment landscape. By combining the transparency and investor protection standards of Mutual Funds SIFs create a compelling new avenue for affluent investors.

As the category evolves, SIFs could emerge as a meaningful solution for investors seeking sophisticated strategies within a well-regulated and transparent framework — truly offering the “best of both worlds.”

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