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# SEBI Specialized Investment Funds: A New Investment Frontier

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Navigating the investment world can feel like choosing between a safe but predictable path and a thrilling but riskier adventure. Mutual funds offer security and diversification but often limit your options. Portfolio Management Services (PMS) provide tailored strategies but demand a hefty ₹50 lakh minimum and come with lighter regulation. Enter Specialized Investment Funds (SIFs), a game-changing initiative by the Securities and Exchange Board of India (SEBI) launched in 2025. Designed for sophisticated investors, SIFs blend the flexibility of PMS with the regulatory safety of mutual funds, all at a more accessible ₹10 lakh entry point. This article explores what SIFs are, why they were introduced, their requirements, the regulatory framework, and their competitive positioning in India's evolving investment landscape.

## **What Are SIFs?**

Specialized Investment Funds are a new category of investment vehicles that allow asset management companies (AMCs) to offer advanced strategies to investors with a minimum investment of ₹10 lakh. Unlike traditional mutual funds, which stick to standard equity or debt portfolios, SIFs can include sophisticated options like real estate investment trusts (REITs), derivatives, and hybrid long-short strategies. Regulated by SEBI, SIFs provide the oversight you'd expect from mutual funds while offering the flexibility typically found in PMS. The framework for SIFs was established through amendments to the SEBI (Mutual Funds) Regulations, 1996, effective April 1, 2025.<sup>1</sup>

## **Why Were SIFs Introduced?**

The Indian investment market has long needed a product that bridges the gap between mutual funds and PMS. Mutual funds, while popular for their diversification and regulation, often restrict AMCs to conservative strategies, limiting innovation. PMS, catering to high-net-worth individuals, offers bespoke portfolios but requires a ₹50 lakh minimum and operates with less regulatory scrutiny. This left many

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<sup>1</sup> Page not found - TaxGuru, Page Not Found  
<https://taxguru.in/sebi/sebi-issues-framework-special-situation-funds.html>.

investors-those with substantial but not ultra-high capital-searching for a middle ground.<sup>2</sup>

SEBI introduced SIFs to meet this demand, providing an alternative that combines flexibility with robust oversight. SIFs align with SEBI's segmented, risk-based regulatory approach, tailoring rules to investment size, investor profile, and product complexity. By lowering the entry barrier to ₹10 lakh, SIFs make sophisticated strategies accessible to a broader group of high-net-worth individuals and institutional investors, fostering market growth while prioritizing investor protection.

### **Eligibility and Requirements**

To participate in SIFs, investors and AMCs must meet specific criteria, ensuring both accessibility and quality.

#### **Investor Requirements**

- **Minimum Investment:** Investors need ₹10 lakh across all SIF strategies at the PAN level, as outlined in the SEBI Regulatory Framework for SIFs. This threshold, lower than PMS's ₹50 lakh, targets high-net-worth individuals and institutions.
- **Accredited Investors:** The minimum investment rule may not apply to accredited investors, offering flexibility for certain qualified participants.<sup>3</sup>

#### **Investment Restrictions and Derivatives Usage**

To manage risk, SEBI has imposed specific restrictions on SIF investments. For example, investment in debt and money market securities is capped based on credit ratings:

- **AAA-rated instruments:** Up to 20% of net asset value (NAV)
- **AA-rated instruments:** Up to 16% of NAV
- **A-rated and below:** Up to 12% of NAV, with an additional 5% allowed upon trustee and AMC board approval

Sectoral exposure in these securities is further capped at 25% of NAV. Additionally, SIFs can allocate up to 25% of net assets to exchange-traded derivatives, beyond hedging and rebalancing purposes<sup>4</sup>.

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<sup>2</sup> *Sebi*, (Feb. 4, 2025), [https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-mutual-funds-amenment-regulations-2025\\_81272.html](https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-mutual-funds-amenment-regulations-2025_81272.html).

<sup>3</sup> *Sebi*, (Feb. 4, 2025), [https://www.sebi.gov.in/legal/circulars/feb-2025/regulatory-framework-for-specialized-investment-funds\\_81280.html](https://www.sebi.gov.in/legal/circulars/feb-2025/regulatory-framework-for-specialized-investment-funds_81280.html).

## AMC Eligibility

AMCs launching SIFs must meet one of two stringent routes to ensure only experienced firms operate these funds:

Route	Criteria	Additional Notes
Route 1: Sound Track Record	<ul style="list-style-type: none"><li>- 3 years of operation</li><li>- Average AUM <math>\geq</math> ₹10,000 crore (last 3 years)</li><li>- No regulatory actions under SEBI Act (last 3 years)</li></ul>	Ensures established AMCs with a proven track record
Route 2: Experienced Management	<ul style="list-style-type: none"><li>- CIO with <math>\geq</math> 10 years experience, AUM <math>\geq</math> ₹5,000 crore</li><li>- Fund manager with <math>\geq</math> 3 years experience, AUM <math>\geq</math> ₹500 crore</li><li>- No regulatory actions (last 3 years)</li></ul>	Allows newer AMCs with highly experienced leadership

These criteria, detailed in the SEBI Regulatory Framework, ensure that only reputable and capable AMCs manage SIFs, safeguarding investor interests.

## Investment Strategies and Features

SIFs stand out for their diverse and flexible investment options, catering to investors seeking sophisticated portfolios. Key strategies include:

- **Equity and Debt:** Traditional asset classes with advanced management techniques.
- **Hybrid Long-Short Strategies:** Combining long and short positions for potential gains in varying market conditions.
- **Real Estate Investment Trusts (REITs):** Exposure to real estate markets.
- **Derivatives:** Up to 25% exposure to exchange-traded derivatives (beyond hedging), with cumulative gross exposures not exceeding 100% of net assets.

SIFs can be structured as open-ended, close-ended, or interval funds, with subscription and redemption intervals ranging from daily to annually, depending on the investment type. Close-ended and interval funds must be listed on stock exchanges for liquidity, as per the SEBI Regulatory Framework. A single-tier benchmark structure ensures transparency, with equity strategies compared to indices like BSE Sensex or NSE Nifty, and debt strategies to representative indices. SIFs also support systematic investment plans (SIPs), systematic withdrawal plans (SWPs), and systematic transfer plans (STPs), offering flexibility in managing investments.<sup>4</sup>

<sup>4</sup>

[https://www.business-standard.com/markets/news/specialised-investment-funds-vs-aifs-which-is-better-for-hnis-124030800095\\_1.html](https://www.business-standard.com/markets/news/specialised-investment-funds-vs-aifs-which-is-better-for-hnis-124030800095_1.html)

## **SIFs vs. Category III AIFs: A New Axis of Competition in Sophisticated Investing**

The introduction of Specialized Investment Funds (SIFs) by SEBI has not only filled the gap between mutual funds and portfolio management services but has also set the stage for direct competition with Category III Alternative Investment Funds (AIFs)-the erstwhile leaders in the domain of advanced, strategy-driven pooled investments. Category III AIFs, governed by the SEBI (Alternative Investment Funds) Regulations, 2012, have long been the preferred vehicle for high-net-worth and institutional investors seeking to deploy complex trading strategies such as long-short equity, derivatives, and leverage. These funds are known for their flexibility and ability to generate absolute returns, but they come with a steep entry barrier: a minimum investment of ₹1 crore, and a regulatory regime that, while robust, is less transparent than that of mutual funds.

SIFs, by contrast, offer many of the same sophisticated strategies-long-short equity, sector rotation, hybrid allocations, and more-but at a more accessible minimum investment of ₹10 lakh. This significantly lowers the bar for entry, inviting a broader spectrum of high-net-worth individuals and family offices to participate in advanced investment strategies that were previously the preserve of the ultra-wealthy. Moreover, SIFs are embedded within the mutual fund regulatory framework, which means they are subject to stringent disclosure, reporting, and transparency norms. Investors benefit from regular portfolio disclosures, risk banding, and standardized benchmarks-features that are not as prevalent or frequent in the AIF space.

Liquidity is another area where SIFs may have an edge. While Category III AIFs typically impose lock-in periods and limited redemption windows, SIFs can be structured as open-ended, close-ended, or interval funds, with some schemes even listed on exchanges to facilitate liquidity. This flexibility can be particularly attractive to investors who desire sophisticated strategies but are not prepared to sacrifice access to their capital for extended periods<sup>5</sup>.

From the perspective of asset managers, SIFs leverage the established mutual fund infrastructure-distribution networks, investor education, and operational systems-potentially accelerating adoption and reducing friction for both providers and investors. Category III AIFs, while offering greater latitude in leverage and bespoke structuring, face higher compliance costs and often cater to a more exclusive clientele.

In summary, the arrival of SIFs introduces a formidable alternative to Category III AIFs, democratizing access to complex investment strategies while enhancing regulatory comfort and liquidity. As both vehicles vie for the attention of India's growing cadre of sophisticated investors, the competition is likely to spur innovation, improve transparency, and ultimately expand the menu of regulated, high-potential investment options available in the Indian market. For practitioners and investors

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<sup>5</sup> *Sebi*, (June 25, 2024),

<https://www.sebi.gov.in/legal/regulations/jul-2012/securities-and-exchange-board-of-india-alternative-investment-funds-regulations-2012-last-amended-on-june-25-2024-24320.html>.

alike, staying attuned to the evolving interplay between SIFs and Category III AIFs will be essential for navigating this dynamic new frontier in Indian finance.

### **Regulatory Framework: A Chronological Journey**

SEBI's SIF framework was rolled out through a key regulation and three circulars in 2025, each building on the previous to create a robust system.

- **SEBI (Mutual Funds) (Amendment) Regulations, 2025<sup>6</sup>**
  - **Date:** February 14, 2025
  - **Details:** Notified under Notification No. SEBI/LAD-NRO/GN/2025/230, this amendment to the 1996 regulations introduced SIFs, effective April 1, 2025. It also included broader mutual fund reforms, such as mandatory stress testing and employee investment requirements. A corrigendum on March 4, 2025 (Notification No. SEBI/LAD-NRO/GN/2025/234) clarified minor errors.
- **Circular 1: Regulatory Framework for SIFs**
  - **Date:** February 27, 2025
  - **Circular No.:** SEBI/HO/IMD/IMD-I POD-1/P/CIR/2025/26
  - **Details:** This circular outlined eligibility, strategies, and operational guidelines, including the two AMC routes, minimum investment, and benchmarking rules. It directed AMFI to issue guidelines by March 31, 2025, and required stock exchanges to amend regulations.<sup>7</sup>
- **Circular 2: Clarification on SIF Framework**
  - **Date:** April 9, 2025
  - **Circular No.:** SEBI/HO/IMD/IMD-I POD1/P/CIR/2025/54
  - **Details:** This clarified that interval scheme maturity rules don't apply to SIFs and reiterated the ₹10 lakh investment cap, except for mandatory AMC employee investments.
- **Circular 3: Application and ISID Formats**
  - **Date:** April 11, 2025
  - **Circular No.:** SEBI/HO/IMD/IMD-RAC/P/CIR/2025/54

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<sup>6</sup> *Sebi*, (Feb. 4, 2025), [https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-mutual-funds-amendment-regulations-2025\\_81272.html](https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-mutual-funds-amendment-regulations-2025_81272.html).

<sup>7</sup> *Sebi*, (Feb. 4, 2025), [https://www.sebi.gov.in/legal/circulars/feb-2025/regulatory-framework-for-specialized-investment-funds\\_81280.html](https://www.sebi.gov.in/legal/circulars/feb-2025/regulatory-framework-for-specialized-investment-funds_81280.html).

- **Details:** Standardized application and Investment Strategy Information Document (ISID) formats, mandating disclosures on performance, portfolio, NAV, expenses, and more.

Document	Date	Key Focus
SEBI (Mutual Funds) Amendment Regulations, 2025	Feb 14, 2025	Introduced SIF framework
Circular: Regulatory Framework	Feb 27, 2025	Eligibility, strategies, operations
Circular: Clarification	Apr 9, 2025	Interval schemes, investment limits
Circular: Application & ISID Formats	Apr 11, 2025	Standardized disclosures

### Disclosure Requirements

SEBI's emphasis on transparency is evident in the detailed disclosure mandates for SIFs, particularly through the ISID:

- **Performance:** Varies by strategy age (none for new, absolute returns for <1 year, CAR for >1 year).
- **Portfolio:** Top 10 holdings, sector allocation, turnover rating, and AMC investments.
- **NAV:** Computation methodology, repurchase price  $\geq 95\%$  of NAV.
- **Expenses:** No NFO expenses; disclose recurring expenses and impact on returns.
- **Exit Loads:** Clear disclosure with revision details.
- **Strategy Details:** Risks, restrictions, and instruments used.
- **Fundamental Attributes:** Strategy type, objectives, asset allocation; changes need SEBI approval and a 30-day exit window.
- **Close-Ended Funds:** Additional details on listing, corpus, and policies.
- **Investor Information:** Eligibility, application process, R&T agent details.
- **Subscription/Redemption:** Cut-off timings, thresholds, monthly/semi-annual CAS.

These requirements ensure investors have comprehensive information and can make informed decisions.

### Implications for Investors and AMCs

For investors, SIFs unlock sophisticated strategies at a lower entry point than PMS, with SEBI's oversight adding confidence. High-net-worth individuals and institutions can diversify portfolios with options like REITs and derivatives,

previously less accessible. For AMCs, SIFs offer a chance to innovate and attract new clients. However, the strict eligibility criteria may limit smaller AMCs, favoring established players. This could enhance trust but reduce competition, as observed in recent industry commentary.

## **Conclusion**

Specialized Investment Funds represent a bold step by SEBI to modernize India's investment landscape. By offering a regulated yet flexible option for sophisticated investors, SIFs address a critical market gap. The comprehensive framework-spanning the 2025 amendment and three circulars-ensures transparency and investor protection while fostering innovation. As SIFs gain traction and compete with Category III AIFs, they are poised to redefine how high-net-worth investors approach wealth creation in India. For practitioners, staying abreast of regulatory developments and the evolving competitive landscape will be crucial in leveraging this new investment frontier.