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WORLD OF OPPORTUNITIES

GLOBAL MARKETS ARE OPENING UP TO INDIAN INVESTORS THROUGH GIFT CITY

BY NACHIKET KELKAR

Over the last five to seven years, investing in the capital market has gained rapid traction. Many more Indians are buying stocks or investing in mutual funds in a big way. Unfortunately, much of that investment remains within India and companies in India. In a way, many investors are putting their eggs in one basket. While India is a high-growth market, exposure to just one market is a risk and wealth

managers often stress on the need to diversify investments. Another important thing is that by investing just in India, many are missing out on large and emerging global themes, like semiconductors or artificial intelligence or biotech. The easiest way to diversify investments into global markets is via mutual funds that have schemes targeting those markets. For instance, funds targeting the US S&P500 or tech heavy Nasdaq

or schemes focused on geographies like Europe or China.

However, the Reserve Bank of India has a cap of \$7 billion on the total investments that Indian mutual funds can make in foreign markets. With most fund houses having hit the limit, this door to international investing is almost closed until the RBI raises the cap.

Retail investors could also invest directly and buy shares in the US. But, it is not as simple a process and costs can be high.

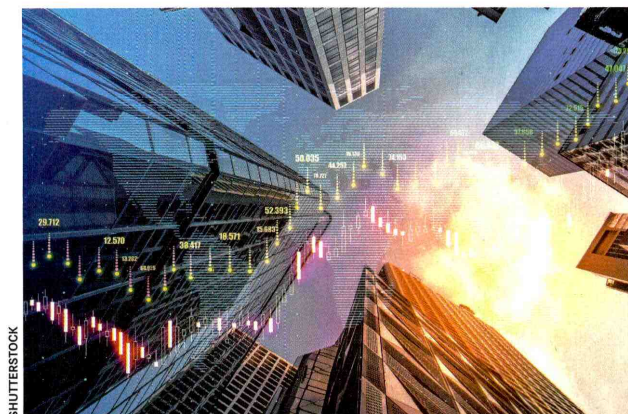
Asset management companies have now found an alternate route, which perhaps is also an advantage for Indian investors looking to invest abroad. Enter outbound funds from the GIFT (Gujarat International Finance Tec-City) International Financial Services Centre.

DSP Mutual Fund has announced its new offering—the DSP Global Equity Fund—targeting retail investors from India. This fund will invest in global stocks, typically a portfolio of 30-50 companies, seeking long-term capital appreciation. The US, Europe, Hong Kong, Taiwan, South Korea, Japan and Canada are the major geographies the fund will invest in. This fund is targeted at resident Indians, primarily retail investors, who can initially invest \$5,000 (about ₹4.3 lakh), with additional investment being \$500 each.

The biggest difference or advantage in investing in such an outbound fund through GIFT City is that, unlike mutual funds where the investment limit is subject to availability of industry-wide and asset management company-level limits, here the investment limit depends on the liberal remittance scheme (LRS) limit, which is \$250,000 for resident individuals per financial year.

"The investor is able to diversify globally in his portfolio," said Kalpen Parekh, MD and CEO of DSP Mutual Fund. "The investor is able to build forex currency. Say tomorrow you want to send your kids for a four-year degree programme overseas. It is a reasonably large expense. So you want to save for that. Products like this allow you to take care of that."

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Typically, India accounts for only around 4-5 per cent of global market cap. In a way, by investing only in India, an investor is missing out on 95 per cent of opportunities. "India is a high-growth market, but it's still just one part of the global opportunity set," said Amit Bivalkar, founder-director at Sapiient Finserv. "Investing abroad gives you access to unique sectors and companies you can't buy locally and geographic diversification reduces your dependence on the Indian economy."

Many, especially high-net worth individuals, invest abroad via LRS to accumulate funds in strong currencies like the US dollar or euro, which can then be used for a child's foreign education or for travelling abroad.

A key point to consider is also the fact the rupee has been depreciating against the dollar over time. So, investing via LRS in such outbound funds helps them lock in future dollar needs at current exchange rate, while also gaining over time from potential dollar appreciation.

DSP is not the only asset manager tapping into this opportunity to launch outbound international funds through the GIFT City route.

Mirae Asset Investment Managers (India) recently launched a global

“ CAPITAL GAINS AND DIVIDEND TAXES ARE PAID AT THE FUND LEVEL.... THERE'S NO ADDITIONAL TAX LIABILITY IN INDIA AT REDEMPTION.

—Amit Bivalkar, founder-director,
Sapiient Finserv.

allocation fund, which will invest in a diversified portfolio of global equity exchange traded funds (ETFs) based on broad market indices and emerging themes. This, though, is a non-retail fund available to accredited investors or those committing a minimum subscription of above \$151,000 (about ₹1.26 crore) with a cap of 1,000 investors.

However, Mirae also has plans to launch a retail-focused international outbound fund from GIFT City this year.

According to Vaibhav Shah, head of products, business strategy and international business at Mirae, they have already received investment commitments of around \$7-8 million and is planning the first close soon.

Mirae is already a large global asset manager, managing close to \$270 billion, and has about 7,750 offshore funds. Shah says this can be a big leverage and the fund it has launched through GIFT will have the flexibility to invest in multiple underlying themes and funds.

Several other asset management companies are also planning to launch outbound international funds via GIFT City. In June, Tata Asset Management had received International Financial Services Centres Authority approval to commence operations in GIFT City.

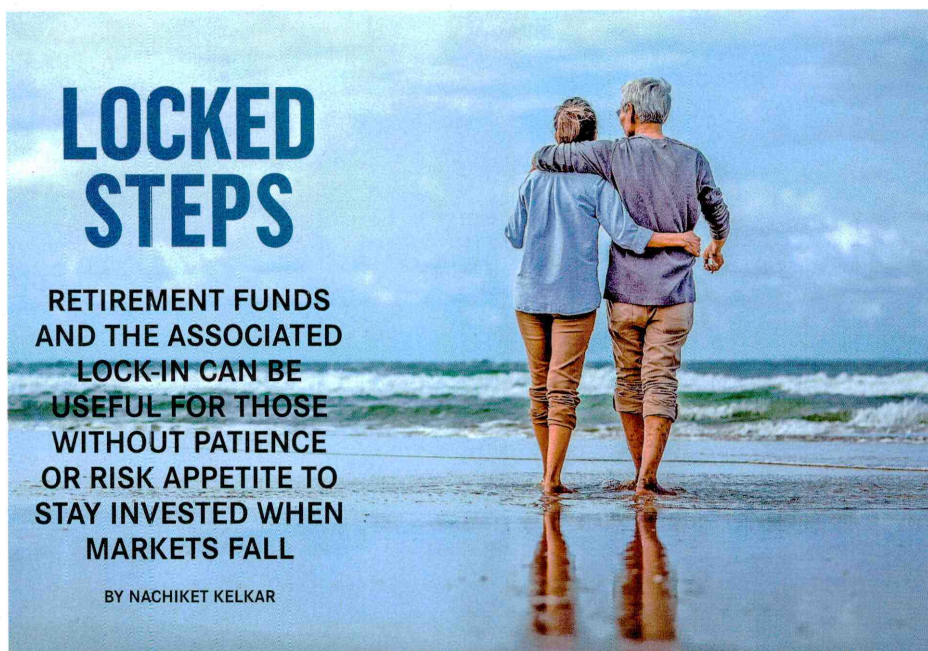
You could directly buy global stocks or ETFs through several platforms via LRS, but you would have to pay high custody fees, apart from broking charges and currency conversion fee. Then there is the tax element. "All this can be managed by a fund structure in a more efficient manner at a lower cost with a professional fund manager managing it," explained Shah.

Bivalkar of Sapiient says tax efficiency is one advantage these funds have. "Capital gains and dividend taxes are paid at the fund level in the respective foreign jurisdictions using the fund's PAN," he said. "For the investor, there's no additional tax liability in India at redemption, no TDS and no extra filings for these gains." According to him, international investing works best long term.

Let us consider the DSP fund. If the holding period is over two years, then long-term capital gains will be calculated at 14.95 per cent. But, if your holding is under two years, then the short-term capital gains tax will be significantly higher at 42.74 per cent.

While international investing has its advantages, one must remember there are market risks. Also, you will have currency movements, political changes and regulatory shifts in the jurisdictions where the underlying investments are made. An investor will have to take these things into consideration before investing. ●

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India has the world's largest youth population, with about 66 per cent of the people now estimated to be under the age of 35. As the economy is growing, the aspirations, too, are rising. People are spending more, buying new cars, the latest gadgets and travelling more frequently. But, perhaps, there is also the need to think about planning for retirement.

This is extremely important, especially if you are not working in the government and there is no guaranteed pension or social security that you can depend on once you hang up your boots. You have to carefully consider how much money you would need post retirement and that corpus has to last for 20-30 years. You also need to take into consideration the annual inflation across goods and services.

Retirement planning is not an easy

task, but saving up for retirement need not be too challenging. Many asset management companies today offer retirement funds as part of their broader bouquet of mutual fund schemes.

Simply put, retirement funds or pension funds are solution-oriented schemes where you invest and build a corpus for your retirement needs. These schemes are like your normal mutual fund schemes, investing in equity as well as fixed income instruments like corporate bonds and government securities. But, there is one key difference.

"Funds in this category have a lock-in for at least five years or till retirement age, whichever is earlier," pointed out Jiral Mehta, senior manager-research at FundsIndia.

Also, typically, as your retirement age nears, some retirement funds may shift allocations towards

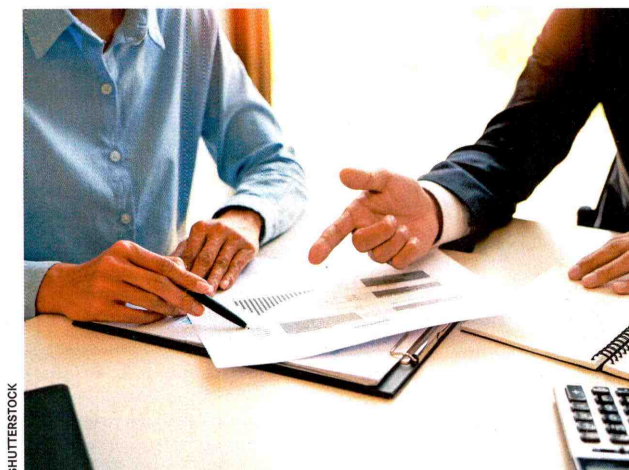
lower-risk debt assets to protect the corpus that has been generated over time.

Retirement funds have been gaining traction in recent years. According to Icm Analytics, the assets under management of retirement mutual funds has increased more than three times in the last five years. AUM rose from ₹9,800 crore in June 2020 to ₹31,973 crore in June 2025.

The total number of folios under such schemes has increased 18.21 per cent to 30.09 lakh in June 2025, up from 25.46 lakh in June 2020. As investor interest has grown in such funds, the number of schemes, too, has gone up from 24 to 29.

"Equity mutual funds have captured significant inflows due to optimism about market recovery and growth, which is appealing for long-term retirement portfolios," said Ashwini Kumar, senior vice-presi-

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dent and head, market data, at Icr Analytics. "This apart, enhanced transparency and investor protection regulations have boosted investor confidence in mutual funds as a retirement vehicle."

Let us understand the construct of some of the retirement funds.

Typically, these funds, like normal mutual fund schemes, will invest in equity and debt. Some of them offer pure equity or debt options, while others are hybrid, investing in a mix of equity and debt.

In UTI Retirement Fund, typically 60 per cent of the corpus is in debt and the rest in equity. ICICI Prudential's Retirement Fund has multiple scheme options from pure equity to pure debt and conservative or aggressive hybrid, depending on one's risk-taking appetite.

Aditya Birla Sun Life Mutual Fund takes a slightly different approach based on age when it comes to retirement funds. Aditya Birla Sun Life Retirement Fund 30s plan, for instance, primarily invests in a well diversified portfolio of equity and equity-related instruments.

The 40s plan adds a marginal

allocation to debt, while in the 50s plan, investment in debt instruments gets predominant with a small equity portion and then the 50s plus debt plan, as the name suggests, invests in debt and money market instruments. It offers a trigger facility for seamless transition of risk profile and asset allocation.

Nippon India's retirement fund offers a choice between a wealth creation scheme and income generation scheme. As the names suggest, the wealth creation scheme is tilted towards largely equity while the income generation is debt heavy.

Irrespective of the fund or scheme, the goal is to build a corpus for retirement, and hence the longer term lock-in. Open-ended schemes have no such lock-in and therefore one can enter and exit at any time. One may argue that one could plan for retirement investing in normal open-ended funds as well. But, retirement funds and the associated lock-in can be useful for someone who doesn't have the patience or the risk appetite to stay invested when markets fall.

"You can treat a normal fund like

a retirement fund," noted Anant Ladha, founder of Invest Aaj for Kal. "But, over time, I have also realised that if someone has invested in a specific category like retirement fund, the tendency would be to not touch the investment before retirement. A lot of people have anxiety, especially during bad days of the market, and then may look at redeeming at least some of their funds. The solution to that anxiety is retirement fund and people are making money in these funds."

The returns retirement funds generate will depend on the proportion of the individual scheme investments. For instance, a pure equity scheme will obviously deliver much higher returns than a scheme that is debt heavy.

These funds usually attract salaried professionals, especially those in the 25-40 age group, who start early through SIPs to take advantage of compounding, and the fund lock-in enforces discipline, noted Mehta of FundsIndia. But, that lock-in can also be a disadvantage. "Due to the five-year lock-in, there is a lack of exit flexibility in case of underperformance or any undesirable changes in the fund, like fund manager exits or strategy changes," said Mehta.

While these are labelled as retirement funds, people need not restrict themselves to these funds for retirement goals, said Mehta. "Investors are better off investing in diversified equity funds with a proven long-term track record for their retirement goals," she said. "Those looking for tax benefits on top of capital growth can prefer proven funds from the ELSS (equity-linked savings scheme) category, which has a shorter lock-in period of three years."

Irrespective of the path, planning for income stopping and investing over the long term will determine whether you lead a happy or an anxious post-retirement life. ●