

Overseas investment cap for MFs may be doubled

Sebi may raise industry-wide limit from \$7 bn to \$12-15 bn

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The Securities and Exchange Board of India (Sebi) is considering doubling the overseas investment limit for domestic mutual funds (MFs), a move that will help citizens diversify their investments.

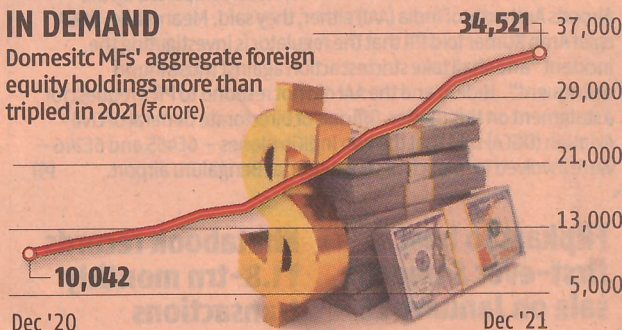
According to sources, the market regulator intends to increase the industry-wide limit from \$7 billion to \$12 billion or \$15 billion.

This comes amid a growing trend among domestic fund houses to launch schemes that allow exposure to overseas assets. While the current \$7-billion limit is yet to be fully utilised, some players are approaching the cap meant for individual fund houses.

Motilal Oswal Asset Management Company (AMC) has halted lump-sum subscription and switch-ins for its three international schemes to man-

IN DEMAND

Domestic MFs' aggregate foreign equity holdings more than tripled in 2021 (₹ crore)



Source: primemfdatabase

age overseas investment limits. On Tuesday, the asset manager even temporarily suspended the issuance of exchange traded fund (ETF) units for its Motilal Oswal Nasdaq 100 ETF and Motilal Oswal Nasdaq Q50 ETF schemes.

"We are of the view that the suspension is temporary in nature and we, alongside the rest of the industry, are working with the regulator to enhance

the foreign investment limits. We are positive that the limits may be increased soon, and you will be able to again make fresh investments in your schemes," said the fund house in a note to the investors.

Industry sources said a decision on increasing the limit could be taken by Sebi as early as this month after consulting the Reserve Bank of India (RBI).

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"We are sure that they will increase the overall limit for the industry. But they also need to look at a limit of \$1 billion per fund house. The way we have seen large participation from investors towards international funds, this limit should also be increased," said an official in the industry. In June 2021, Sebi had increased the limit from \$600 million to \$1 billion per fund house within the overall industry limit of \$7 billion. Of the \$1 billion, a maximum of \$300 million can be invested in a single overseas ETF.

Some believe that raising the limit could pose forex-related challenges.

Vivek Iyer, national leader (financial services) at Grant Thornton Bharat, said that rais-

ing overseas investment limits for MFs might impact India's forex reserve position, which needs to be maintained to regulate currency flows as the US Federal Reserve is expected to hike interest rates.

Indian fund houses have launched various international-focused Fund of Funds (FoF) in the last few months as such products offer investors diversification towards global equities. The data from Primemfdatabase shows that the aggregate mutual funds holdings in foreign equity were ₹34,521.31 crore (about \$4.6 billion) as on December 21.

Investing in global markets allows investors to capture disruptive growth through various themes, many of which are not available on the listed markets in India. Global investing, therefore, diversifies the investment portfolio for investors and has the potential to improve their risk-adjusted returns. In the past one year, fund houses have launched 23 international-focused funds. US-focused funds have generated one-year returns in the range of 22 to 25 per cent, shows the data from Value Research.