

CIRCULAR

SEBI/HO/IMD/IMD-PoD-1/P/CIR/149

November 04, 2024

To

All Mutual Funds

All Asset Management Companies (AMCs)

All Trustee Companies/ Boards of Trustees of Mutual Funds

Association of Mutual Funds in India (AMFI)

All Custodians

Dear Sir/Madam,

Subject: Investments in Overseas Mutual Funds/ Unit Trusts by Indian Mutual Funds

1. Mutual Funds are permitted to invest in overseas securities as specified under paragraph 12.19.2 of the SEBI Master Circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/90 dated June 27, 2024 (hereinafter referred to as 'Master Circular'), which also includes investment in overseas Mutual Funds/Unit Trusts ('MF/UTs').
2. In order to facilitate ease of investment in overseas MF/UTs, to bring transparency in the manner of investment, and to enable Mutual Funds to diversify their overseas investments, the following has been decided based on feedback received from the industry, consultation with Mutual Fund Advisory Committee and public consultation:

Investment by schemes:

- 2.1. In terms of paragraph 12.19.2.10 of the Master Circular, Indian Mutual Fund schemes may also invest in overseas MF/UTs that have exposure to Indian securities, provided that the total exposure to Indian securities by these overseas MF/UTs shall not be more than 25% of their assets.

2.2. While investing in overseas MF/UTs that have exposure to Indian securities, the Indian Mutual Fund schemes shall ensure the following:

2.2.1. **Pooling:** Contribution of all investors of the overseas MF/UT is pooled into a single investment vehicle, with no side-vehicles including segregated portfolios, sub-funds or protected calls, etc.

2.2.2. **Pari-passu and Pro-rata:** Corpus of the overseas MF/UT is a blind pool (i.e. common portfolio) with no segregated portfolios. All investors in the overseas MF/UT have pari-passu and pro-rata rights in the fund, i.e. they receive a share of returns/gains from the fund in proportion to their contribution and have pari-passu rights.

2.2.3. **Independent investment manager/fund manager:** Overseas MF/UT is managed by an independent investment manager/fund manager who is actively involved in making all investment decisions for the fund. This ensures that the investments are made autonomously by the investment manager/fund manager without influence, directly or indirectly, from any of the investors or from any other entity.

2.2.4. **Public disclosure:** Such overseas MF/UTs disclose their portfolios at least on a quarterly intervals to the public to maintain transparency.

2.2.5. **No advisory agreement:** There shall not be any advisory agreements between Indian Mutual Funds and underlying overseas MF/UTs, to prevent conflict of interest and avoid any undue advantage to either of the parties.

Breach of the limit:

2.3. At the time of making investments (both fresh and subsequent), Indian Mutual Fund schemes shall ensure that the underlying overseas MF/UTs do not have more than 25% exposure to Indian securities.

2.4. Subsequent to the investment, if the exposure by an underlying overseas MF/UTs to Indian securities exceeds 25% of their net assets, an observance period of 6 months from the date of publicly available information of such breach (e.g. portfolio disclosures) shall be permitted to Indian Mutual Fund schemes for

monitoring of any portfolio rebalancing activity by the underlying overseas MF/UT.

2.5. During the observance period, the Indian Mutual Fund scheme:

2.5.1. shall not undertake any fresh investment in such overseas MF/UT.

2.5.2. may resume their investments in such overseas MF/UT in case the exposure to Indian securities by such overseas MF/UT falls below the limit of 25%.

Rebalancing of the portfolio:

2.6. If the portfolio of an underlying overseas MF/UT is not rebalanced within the 6-month observance period, Indian Mutual Fund scheme shall liquidate its investments in the concerned underlying overseas MF/UT within the next 6 months ('liquidation period') from end of the observance period.

2.7. If the exposure to Indian securities by the underlying overseas MF/UT falls below the prescribed limit of 25% during the liquidation period, the requirement at clause 2.6 above shall not be applicable.

Non-compliance:

2.8. If the Indian Mutual Fund/ Asset Management Company fails to rebalance the portfolio of the scheme in line with the aforesaid requirements, then after the 6-month liquidation period, the Indian Mutual Fund/ Asset Management Company shall:

2.8.1. not be permitted to accept any fresh subscriptions in concerned Indian Mutual Fund scheme;

2.8.2. not be permitted to launch any new scheme;

2.8.3. not levy exit load, if any, on the investors exiting such scheme(s).

Fundamental attribute change:

2.9. The Indian Mutual Fund scheme(s) shall be exempted from the requirement of a fundamental attribute change for any change in underlying overseas MF/UT, subject to the following:

2.9.1. The underlying overseas MF/UT exceeds 25% exposure to Indian securities, and;

- 2.9.2. The Indian Mutual Fund scheme intends to invest in other overseas MF/UT with similar investment objectives, and;
- 2.9.3. A notice cum addendum is issued to investors.
3. The provisions of this circular shall come into force with effect from the date of this circular.
4. The circular is issued in exercise of powers conferred under Section 11(1) of Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 43(1) & Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
5. This circular is available on SEBI website at <http://www.sebi.gov.in> under the category "Legal -> Circulars"

Yours faithfully,

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