Indian Economy · GS - III

What are Specialized Investment Funds (SIFs)? Discuss their potential role in India’s financial markets and the importance of effective regulation for investor protection

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

Specialized Investment Funds, SEBI, investment diversification, alternative investment strategies, financial-market development, investor protection, risk disclosure, regulatory compliance.

Model Answer

Introduction

Specialized Investment Funds (SIFs) are investment products that offer specialised investment strategies beyond those generally available through conventional mutual-fund schemes. In India, they operate under SEBI’s regulatory framework.

Significance of SIFs

1. **Investment diversification:** They provide eligible investors with access to a wider range of investment strategies.
2. **Financial-market development:** They can expand investment options and encourage innovation in asset management.
3. **Portfolio flexibility:** Fund managers can pursue specialised strategies within prescribed regulatory limits.

Challenges

SIFs may involve complex strategies, market volatility and liquidity risks. Investors may also find it difficult to assess the risks without clear and adequate disclosures.

Way Forward

SEBI should ensure transparent disclosures, suitable risk classification, effective supervision and strong compliance. Investors should assess their risk tolerance and financial goals before investing.

Conclusion

SIFs can broaden India’s investment landscape, but their benefits depend on responsible fund management, informed investors and effective regulation.

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