

PARTNER EDITION · RISK FRAMEWORK

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# SIF Risk Pointers

*The eight risks every SIF distributor must understand — and disclose to the client.*

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EDITION

**May 2026**

v2.0 · Partner-confidential

# Net-exposure risk

## MECHANISM

The manager adjusts net exposure within the stated band based on market signals. If the band is wide (e.g. 60–80%), actual behaviour can vary substantially from the average.

## WHEN IT MATTERS

When the client expected 'hedged equity' to mean reliably ~50% net long, but the manager actually runs at 75% during a rally. In the next drawdown, protection is smaller than the client anticipated.

## MITIGATION

Read the monthly factsheet net-exposure number, not just the SID range. Compare three months of factsheets to see whether the manager actually varies, or always sits at the top of the range.

## WHAT TO TELL THE CLIENT

*“This fund can run between 60% and 80% net long. The number that matters is what they actually do — and you can see that on every monthly factsheet. We’ll check it together each quarter and rebalance the SIF allocation if the manager drifts.”*

## MONITOR

Monthly factsheet net-exposure vs the stated range.

## ESCALATION TRIGGER

Sits within 5% of the band edge for 3 consecutive months → review fit.

# Liquidity-window risk

## MECHANISM

Redemption is twice a week, not daily, and settlement is T+3. The worst-case redemption-to-funds-in-bank time can be 7–10 business days.

## WHEN IT MATTERS

When a client has near-term liquidity needs (tax, property, medical) and doesn't realise SIF redemption isn't on-demand.

## MITIGATION

Size the SIF allocation so a worst-case redemption call still gives 7–10 business days of buffer for known cash needs. Never put the client's emergency fund in a SIF. Keep one month of expected outflow in a liquid MF.

## WHAT TO TELL THE CLIENT

*“Liquidity is twice a week, not daily. For your emergency money we’ll use a liquid mutual fund. The SIF is for capital that doesn’t need to come back at 24 hours’ notice.”*

## MONITOR

Time between client need-to-redeem signals and the next redemption window.

## ESCALATION TRIGGER

Client signals a cash need within 30 days → don't add to SIF; consider partial redemption ahead.

# Manager-skill risk

## MECHANISM

Long-only managers need to be right about winners. Long-short managers need to be right about both winners and losers — and to time the hedge correctly. Performance dispersion in long-short is much wider than in long-only.

## WHEN IT MATTERS

Most in the first 12–18 months of a fund's life, when track record is too short to judge skill. After three years, the data is clearer.

## MITIGATION

Look at the manager's prior PMS or hedge book if any. Prefer managers with 3+ years of explicit long-short exposure over pure equity-MF pedigree. For new managers, size the SIF allocation smaller initially.

## WHAT TO TELL THE CLIENT

*“Long-short is harder than long-only. We weight your allocation toward managers with a real hedging track record, not first-timers — and we keep your SIF positions diversified across managers so single-manager risk doesn't dominate.”*

## MONITOR

Rolling 12-month alpha vs benchmark; manager attribution per factsheet (if disclosed).

## ESCALATION TRIGGER

Manager exits the AMC → automatic tier review on the fund.

# Concentration risk

## MECHANISM

SIFs can run more concentrated long books than most MFs — top-10 holdings can be 60%+ of NAV. Higher concentration means higher alpha when calls work and bigger drawdowns when they don't.

## WHEN IT MATTERS

When the SIF's top holdings overlap with the client's existing direct-equity book or flagship MF holdings. The client thinks they have diversification; they actually have hidden concentration.

## MITIGATION

Pull the SIF's top-10 against the client's existing portfolio at every quarterly review. If overlap is > 30% on weight, the SIF isn't actually diversifying — choose a different SIF, or rebalance the direct-equity book.

## WHAT TO TELL THE CLIENT

*"I cross-checked this SIF's top-10 against your existing equity book. Overlap is 18%, which keeps the diversification benefit intact. If at any rebalance the overlap rises above 30%, we'll revisit."*

## MONITOR

Top-10 overlap with client portfolio, recomputed quarterly.

## ESCALATION TRIGGER

Top-10 overlap exceeds 30% → review and possibly switch SIF or trim direct equity.

# Regulatory risk

## MECHANISM

SEBI can change rules around eligible underlyings, leverage limits, tax treatment, liquidity windows or distributor commission caps. Any change could materially affect fund behaviour or investor returns.

## WHEN IT MATTERS

At any time — but especially around cycles of regulatory activity: Budget, SEBI board meetings, and after major market events.

## MITIGATION

Stay current with the SEBI master circular and subsequent circulars. Size the SIF allocation as part — not all — of the equity sleeve. Be ready to communicate regulatory changes to clients within 48 hours.

## WHAT TO TELL THE CLIENT

*“It’s a new category and the rules are still evolving. SEBI may refine things further. We size it as one slice of your equity allocation, not as a wholesale replacement. If SEBI changes anything material, you’ll hear from me within 48 hours.”*

## MONITOR

SEBI circulars and AMFI updates.

## ESCALATION TRIGGER

Material rule change (tax category, leverage cap, liquidity rule) → review all clients within 30 days.

# Tax-surprise risk

## MECHANISM

The 65% rule applies to the fund's total equity classification, not its net equity exposure. A hybrid LS fund with 50% net equity may have 100% gross equity (50% net long + 50% hedge) but still classify as debt-oriented — because hedges offset.

## WHEN IT MATTERS

At every redemption, every IDCW, and at year-end harvesting. Surprises the client when realised gain is taxed at slab (potentially 30%+) instead of the expected 12.5% LTCG.

## MITIGATION

Walk through the tax category explicitly at onboarding. Document the conversation in the suitability record. Re-confirm tax category at year-end before the client's CA prepares returns.

## WHAT TO TELL THE CLIENT

*"This is a hybrid SIF — it's taxed at your slab rate, not the 12.5% LTCG you see on equity MFs. That's a feature of the asset mix, not a flaw. We accounted for it in the after-tax return calculation we did at onboarding."*

## MONITOR

Tax category in the latest factsheet.

## ESCALATION TRIGGER

Fund's average equity crosses 65% → tax category changes; notify client immediately.

# NAV-volatility-perception risk

## MECHANISM

If a daily-NAV MF moves -0.5% per day for two days, the client sees two small moves. A twice-weekly SIF moving -1.0% across the same period shows one bigger-looking move. Same underlying volatility, different perceptual impact.

## WHEN IT MATTERS

In the first 90 days, when clients are still calibrating their reaction to the new vehicle.

## MITIGATION

At onboarding, show the client a 6-month NAV chart of a comparable existing SIF. Pre-empt the “why did it drop 1.2% on Wednesday?” call by setting expectations early.

## WHAT TO TELL THE CLIENT

*“NAV is twice a week. A 1% swing between prints is normal — same underlying volatility as your existing equity book — it just looks sharper because there are fewer data points. Two weeks of NAV prints will look noisier than the same period in a mutual fund.”*

## MONITOR

Client behaviour — questions, panic calls, redemption requests.

## ESCALATION TRIGGER

Three or more panic calls within 30 days → re-do suitability assessment; the SIF may not be the right fit.

# Derivatives / counterparty risk

## MECHANISM

In a stress event, derivative liquidity can dry up — wider bid-ask, slower execution, margin calls. Exchange-traded mitigates counterparty risk via the clearing house but doesn't eliminate market-liquidity risk. OTC adds direct counterparty exposure.

## WHEN IT MATTERS

In extreme volatility regimes (March 2020-style, large macro shocks).

## MITIGATION

Confirm the SIF uses primarily exchange-traded derivatives. Read the SID's derivatives policy section. Avoid SIFs with material OTC exposure unless the AMC is global-grade.

## WHAT TO TELL THE CLIENT

*“This SIF uses exchange-traded futures and options — the same clearing-house mechanism as Nifty futures you might trade directly. There is no bilateral counterparty risk. In a stress event, liquidity in these instruments stays adequate.”*

## MONITOR

SID derivatives section; AMC monthly factsheet hedge composition.

## ESCALATION TRIGGER

AMC adds material OTC derivative exposure → review and possibly notify client.

# Disclosure obligations — what goes in the suitability record

SEBI's SIF framework imposes explicit disclosure obligations on the distributor that go beyond the standard mutual-fund risk disclosure. The following must be in writing in the suitability record for each client:

- ✓ The fund's stated net-exposure band.
- ✓ The fund's redemption-window cadence and settlement.
- ✓ Any material conflicts of interest in your distribution relationship.
- ✓ Minimum investment and how it cumulates across schemes at the same AMC.
- ✓ The fund's tax category (equity-oriented vs debt / hybrid-oriented).
- ✓ The fund's exit-load schedule.
- ✓ Your trail commission rate (if asked).
- ✓ The fund's stated risk type (long-short, hybrid LS, asset allocator).

## BEYOND COMPLIANCE — THIS IS GOOD SELLING

*A client who has heard you address all eight risks is materially more likely to stay invested through a drawdown.*

# Next steps

Three ways to turn this document into reduced redemption risk for your book:

## 01 Add the 8 risks to your suitability record

A one-page risk acknowledgement signed alongside the SIF subscription form. Defends both you and the client.

## 02 Pre-empt the perception call with a NAV chart

Show a 6-month comparable SIF NAV at onboarding so the first 1% Wednesday move doesn't trigger a panic call.

## 03 Diary the escalation triggers

Net-exposure band, top-10 overlap, manager exit, tax-category change. Calendar a quarterly re-check on each.

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