

# Can MFs invest in unlisted equities?

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*Post the IL&FS crisis in 2018, Sebi restricted MF investments in unlisted debt and equity instruments*



To eliminate high risk with investing in unlisted securities, Sebi (Securities and Exchange Board of India) prohibits MFs (mutual funds) from investing in such instruments since September 2019.

Before that, mutual funds were allowed to invest a nominal portion of their portfolio in unlisted equity shares.

A fund house could invest up to 5% of its NAV (Net Asset Value) in the unlisted equity shares or equity

related instruments in case of open-ended scheme and 10% of its net asset value in case of close ended scheme.

Post the IL&FS crisis in 2018, on review of investment norms for mutual funds in debt and equity securities, Sebi restricted MFs investing in unlisted debt and equity instruments.

According to Sebi (Mutual Funds) Regulations, 2019, "All investments by a mutual fund scheme in equity shares and equity related instruments shall only be made provided such securities are listed or to be listed." Mutual funds can come in as anchor investors in case of to-be-listed entities, said Anil Ghelani, head passive investments & products of DSP Mutual Fund. "Hence, we witnessed some of the mutual funds participating in the recent IPOs (initial public offering) before listing."

"Unlisted equities are a very illiquid asset class. If there was undue redemption pressure, then the assets need to be sold at distressed pricing, which will not only impact exiting investors but also the existing investors," said Vishal Dhawan, board member, Association of Registered Investment Advisors (ARIA).

There is a tendency for a lot of investors to get carried away because a lot of the unlisted stocks may have brands or names that we may use on daily basis, added Dhawan.

"We believe it is best that access to unlisted shares is available only through investments like AIFs, in which only those investors who can deal with the risks participate," Dhawan concluded.

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