

Consultation Paper on investment by Mutual Funds in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

1. Objective

1.1. The objective of this consultation paper is to solicit comments on the proposal to enhance limits for investments by Mutual Funds in REITs and InvITs, thereby providing more investment avenues and further diversification to schemes of Mutual Funds. The proposal is also expected to increase the capital inflow into these instruments, broadening their market base and liquidity.

2. Background

2.1. As per the current regulatory framework, an MF scheme can invest in REITs and InvITs, subject to the following:

2.1.1. A MF scheme shall not invest more than 10% of its NAV in units of REIT and InvIT, subject to maximum of 5% of its NAV in units of REIT and InvIT issued by a single issuer. (not applicable for investments in case of index fund or sector or industry specific scheme pertaining to REIT and InvIT)

2.1.2. No MF under all its schemes shall own more than 10% of units issued by a single issuer.

2.2. The term “equity related instruments” has been defined under the SEBI (Mutual Funds) Regulations, 1996, as under:

“Equity related instruments” include convertible debentures, convertible preference shares, warrants carrying the right to obtain equity shares, equity derivatives and such other instrument as may be specified by the Board from time to time;

2.3. In this regard, SEBI has been receiving representations from certain stakeholders to *inter alia* consider the following:

- 2.3.1. Possibility of classification of REITs and InvITs as Equity and their inclusion in equity indices.
- 2.3.2. Dedicated MF scheme category for REITs and InvITs.
- 2.3.3. Relaxing investment restrictions in REITs and InvITs for MF schemes.

3. Consideration of the representations received

3.1. Classification of REITs and InvITs as equity and their inclusion in equity indices: The matter regarding classification of REITs and InvITs had been earlier deliberated by the SEBI Board in its meeting in January 2017, wherein it was considered and noted that REITS and InvITs by virtue of their unique features are hybrid instruments. However, SEBI has been receiving representations from stakeholders that given characteristics of such instruments, their classification may be reviewed.

3.2. Features of REITs and InvITs: As part of aforesaid representation, attention is drawn to the following features of the REITS and InvITs:

- Unitholders are owners of assets of REITs and InvITs
- Distribution (90%) of net distributable cash flow not being guaranteed and varies depending on the performance of individual REITs and InvITs
- Unitholders having right to vote in material transactions
- No obligation to principal repayment
- There are restrictions on borrowings by REITs and InvITs

3.3. It is observed that globally, in some jurisdictions REITs and InvITs are classified as equity instruments, and form part of equity indices. It is also observed that Indian REITs form part of some of the global equity indices such as MSCI India Small Cap Index, FTSE India Index etc.

3.4. In view of the above, the issue was taken up with the Association of Mutual Funds in India (AMFI) and also deliberated in the Mutual Fund Advisory Committee (MFAC). Pursuant to deliberations, AMFI and MFAC were of the view that the REITs and InvITs should be classified as hybrid securities rather than as equity or debt securities, *inter alia*, due to difference in the structure related to their cash flows, dividends, half-yearly Net Asset Value (NAV) calculation based on valuation, voting rights limited to certain operational decisions etc. Further, it was deliberated by MFAC as to whether the inclusion of these instruments as constituents of equity indices would be appropriate and fair to investors in schemes following such indices as benchmark.

3.5. Currently, REITs and InvITs form part of investments by both equity and debt mutual fund schemes. The data on exposure by MF schemes as on December 31, 2024 is tabulated below:

Scheme Type	# Schemes	AUM of such Schemes (Cr.)	# Unique ISINs	Investment in REITs and InvITs (Cr.)	Exposure % of AUM in REITs and InvITs by such schemes		
					Average	Median	Max
Equity	32	2,60,914	14	4,910	2.1%	1.8%	7.0%
Debt	20	43,788		1,766	3.7%	2.7%	9.4%
Hybrid	53	5,76,008		13,072	2.4%	2.0%	9.6%
Solution Oriented	10	19,956		339	1.8%	0.8%	8.4%
Total	115	9,00,666		20,087	2.5%	1.9%	

Consultation No. 1:

REITs and InvITs combine the features of both equity and debt instruments and thus, is there a merit in classifying such securities as “equity” and their consequent inclusion in equity indices for the purpose of investment by Mutual Funds? Please provide comments alongwith supporting rationale.

3.6. The data of listed REITs and InvITs for the month of November, 2024 is tabulated below for reference:

(in INR crores)

SR	Name of the REIT	Listed on	Vol value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	Embassy REIT	NSE & BSE	41.3	32,460	35,221
2	Brookfield REIT	NSE & BSE	11.5	8,301	13,872
3	Mindspace REIT	NSE & BSE	7.5	7,992	21,885
4	Nexus Select Trust	NSE & BSE	3.6	16,961	21,827
SR	Name of the InvIT	Listed on	Vol value on NSE & BSE	Free Float Mcap	Full Float Mcap
1	Indus Infra Trust	NSE & BSE	35.3	4,325	5,088
2	National Highways Infra Trust	NSE & BSE	26.2	14,530	17,190
3	Energy Infrastructure Trust	BSE	19.0	1,428	5,710
4	India Grid Trust	NSE & BSE	16.1	11,577	12,011
5	Powergrid Infrastructure Investment Trust	NSE & BSE	8.6	6,705	7,889
6	Altius Telecom Infrastructure Trust	BSE	5.8	19,173	46,622
7	Cube Highways Trust	NSE & BSE	3.0	8,487	16,013
8	IRB InvIT Fund	NSE & BSE	2.2	2,827	3,365
9	IRB Infrastructure Trust	NSE	No trading	12,012	24,526
10	Interise Trust	NSE & BSE	No trading	3,343	12,931
11	Shrem InvIT	NSE	No trading	2,383	7,120
12	Sustainable Energy Infra Trust	NSE	No trading	1,350	3,499
13	Maple Infrastructure Trust	BSE	No trading	1,057	4,226
14	Anzen India Energy Yield Plus Trust	NSE & BSE	No trading	465	1,604
15	Nxt-Infra Trust	NSE	No trading	404	2,888
16	Highways Infrastructure Trust	NSE	No trading	117	6,837
17	Roadstar Infra Investment Trust	Not listed yet	To be listed	To be listed	To be listed
18	Oriental Infra Trust	NSE	No trading	No trading since listing	No trading since listing

3.7. Dedicated scheme for REITs and InvITs: Pursuant to consideration of the matter, AMFI recommended that such scheme may be considered in the medium to long term. Subsequently, MFAC also recommended that considering the limited universe of REITs and InvITs as on date and the lack of liquidity offered by such instruments listed on the exchanges, it may not be desirable at this stage to introduce a dedicated scheme for Mutual Fund for investing in REITs and InvITs.

3.8. Relaxing investment restrictions in REITs and InvITs for MF schemes: MFAC after giving consideration to actual number of listed REITs and InvITs, their volumes and features, was of the view that the current limits can be enhanced, especially for equity schemes. Considering the recommendations made by MFAC in this regard, the following is proposed:

3.8.1. As current single issuer and overall limits of 5% and 10% respectively in REITs and InvITs restricts Mutual Funds desirous of taking exposure in REITs and InvITs as asset class, the single issuer limits may be revised similar to limits applicable to investments in equity/ debt instruments, i.e. 10% of NAV of fund.

3.8.2. With regard to current overall 10% exposure limit for REITs and InvITs in funds NAV, the same may be revised to 20% for Equity and Hybrid Schemes. However, for Debt Schemes, the same may be kept limited to 10%, considering REITs and InvITs being relatively riskier than debt instruments and perpetual in nature.

3.8.3. The proposal is summarized as under:

Scheme Type	Single Issuer limits		Overall limits	
	Existing	Proposed	Existing	Proposed
Equity Schemes	5%	10%	10%	20%
Hybrid Schemes		10%		20%
Debt Schemes		10%		10%

Consultation No. 2:

Whether the proposals regarding relaxation in investment restrictions in REITs/ InvITs for MF schemes are found to be appropriate?

Consultation No. 3:

Any other suggestions on the proposal may be provided with rationale.

Public Comments on this Consultation Paper

1. Public comments are invited for the proposals as mentioned above. The comments/suggestions should be submitted through the following link by **May 11, 2025**:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

2. In case of any technical issue in submitting your comments through web based public comments form, you may contact the following through email with a subject "Consultation Paper on investment by Mutual Funds in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)":

a) Mr. Lakshaya Chawla, DGM (lakshayac@sebi.gov.in)

b) Mr. Pranay Agrawal, M (pranaya@sebi.gov.in)

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(End of Consultation Paper)