Creating Opportunities of Infrastructure Growth through Dedicated Infrastructure Funds

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Abstract:

The notion of Dedicated Infrastructure Funds is evident in India after the Budget speech by the Hon'ble Finance Minister for the financial year 2007-08, stating its importance in boosting free flow of investments to the blooming infrastructure sector and by allowing mutual funds to offer them to investors. One can visualize that these novel Dedicated Infrastructure Funds will exhibit a new feather in the cap of the unabated mutual funds and will be a new saga in the journey of rewarding mutual funds. Dedicated Infrastructure Funds are funds particularly formulated for investments in unlisted infrastructure projects and companies. These funds will seek investments from retail and institutional investors for harnessing investments in critical infrastructure projects and are also expected to play an active role in infrastructure rejuvenation.

The paper is an attempt to study rationale of Dedicated Infrastructure Fund as a budding source of capital for infrastructure creation in the country and a new avenue for business mantra in infrastructure due to differences in its USPs from current mutual fund schemes. It also highlights the present status of investments by retail investors in infrastructure in India and discuss role of pension funds in promoting Dedicated Infrastructure Funds in India and thereby exploring new possibilities of investments contributing in Infrastructure growth. The paper is mainly a desk study using publications, reports and documents on research carried out in the fields of infrastructure development, infrastructure funds, investment vehicles and mutual funds.

Key Words: Infrastructure, Mutual Funds

The performance of the Indian economy since independence has been well documented. After independence India's developmental strategy has created a modern economy with varied industrial base, a growing services sector and self-sufficient agriculture sector. After five decades of independence, Indian economy has done a lot in the areas of economic and social development. Series of economic reforms have pushed India into the group of developing countries in the world. Further, the infrastructure including research and development capability, consultancy and engineering services, project management services and innovative capacity to improve and adapt technologies, have indeed shown an impressive record of progress particularly through the contribution by the public sector in the initial development of infrastructure and diversification of industrial base. However, many core and strategic areas, important for economy and self-reliance, remain in the public sector at the time when infrastructure is being rapidly modernized to meet global challenges. Before 1991 i.e. before liberalization, investments in the prime areas of the economy were under the hands of public sector and private investments were discouraged. -The Government owned and controlled almost all-banking system and prevented foreign and domestic institutions from entering it.

- The Insurance and Pension Fund industry was Government owned and had to invest most of its assets in low yielding Government securities.

- The Government set nearly all interest rates and; financial institutions were given direction on how they should allocate some of their investments.

-Private capital markets were small and needed Government approval (including Government determination of price and terms) on new capital issues.

Since 1991, there has been a substantial and steady liberalization of the economy, which impedes the importance of market forces. Permission has been granted for the foreign investment to enter into debt and equity market. Mutual Funds territory is also opened for private sector. Government control of the prices of initial public offering has ended. Finally, better regulation, disclosures and investor protection have greatly improved the private capital market integrations. However, for all round development of the economy, still it is necessary to have strong backbone in form of brawny infrastructure in all the key sectors like Power, Roads, Urban-Infrastructure, Rail, Ports, Airports etc. In spite of an overwhelming demand for investment in infrastructure, its provision has largely remained within the purview of the public sector.

However, research studies and reports of various committees and commissions appointed by the Government have realized that investment requirements for infrastructure services are substantially higher than the Government's budgetary allocation. According to an estimate the investment requirement for the infrastructure sector, during the next five years, is expected to touch US$280 bn- US$350 bn. In addition to that, 118 projects valued at $13.4 billion are progressing in roads, ports and airport sectors. Further, the Eleventh Five Year Plan visualizes total investment in physical infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to hover around 9 per cent of GDP by the end of the plan period (2007-12). In continuation to this, it is further projected that the investment in physical infrastructure alone during the Eleventh Five Year Plan has been estimated to be about Rs. 2,002 thousand crore (at 2006-07 prices which is equivalent to about US$ 500 billion:@ Rs. 40/$). As per the table, there is significant need of investments as compared to X Five Year Plan in the all the sectors for infrastructure development. Projected Investment in Infrastructure shows a whooping increment of 136.4% ,particularly due to required investment of US $166.63 billion in Electricity, US $78.54 billion in Roads and Bridges, US $22 billion in Ports development, US $64.61 billion in Telecommunication and US $65.45 billion in Railways.

Table.1

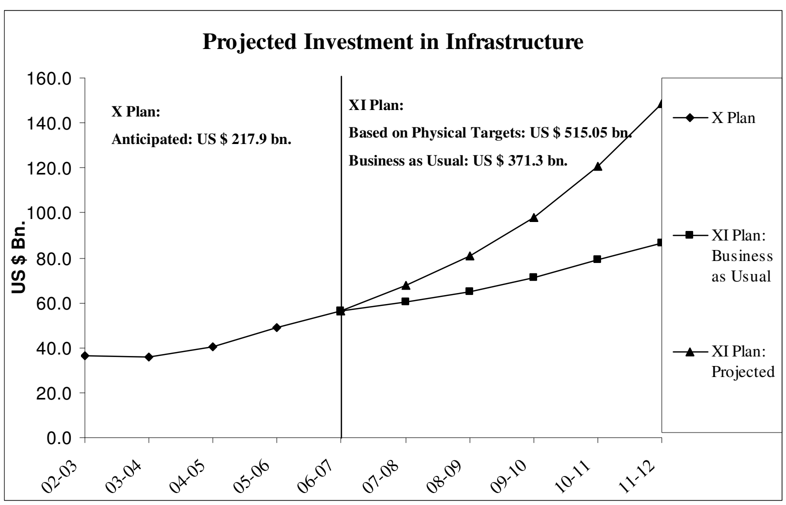
Projected Investment in Infrastructure

	X Plan		XI Plan	
Sectors	**US $ billion**	**Share (%)**	**US $ billion**	**Share (%)**
Electricity (incl. NCE)	72.96	33.49	166.63	32.35
Roads and Bridges	36.22	16.63	78.54	15.25
Telecommunication	25.84	11.86	64.61	12.54
Railways (Incl. MRTS)	29.91	13.73	65.45	12.71
Irrigation (incl. Watershed)	27.88	12.80	64.34	12.49
Water supply and Sanitation	16.20	7.44	35.93	6.98
Ports	3.52	1.61	22.00	4.27
Airports	1.69	0.78	7.74	1.50
Storage	1.20	0.55	5.59	1.09
Gas	2.43	1.11	4.21	0.82
Total	217.86	100	515.05	100
Rs. Crore	871,445		2,060,193	

Source: *http:// www.ncaer.org/downloads/lectures/jipss2008/gajendra-p.ppt*

Figure.1

Scale of the Challenge



Source: *http:// www.ncaer.org/downloads/lectures/jipss2008/gajendra-p.ppt*

Of this amount, the share of the Central Government, the State Governments and the private sector is projected in XI Five Year plan at 37.16, 32.76 and 30.07 per cent, respectively. Moreover, it is also realized that the substantial requirement of debt resources would have to be financed through various sources including domestic bank credit, non-bank finance, pension and insurance funds and through the ECB route.

In not only India but also entire Asia requires significant investments for new infrastructure projects. "According to the Asian Development Bank, in the years leading up to 2010, Asia needs US$ 250 billion per annum to fund new infrastructure projects. Infrastructure funds have fast assumed an important component in the Asian fund pool. Of the $25 billion fresh capital that came into the market during 2006, infrastructure funds accounted for US$ 2.8 billion or 11 % of the 2006 entire pool of capital" [1].

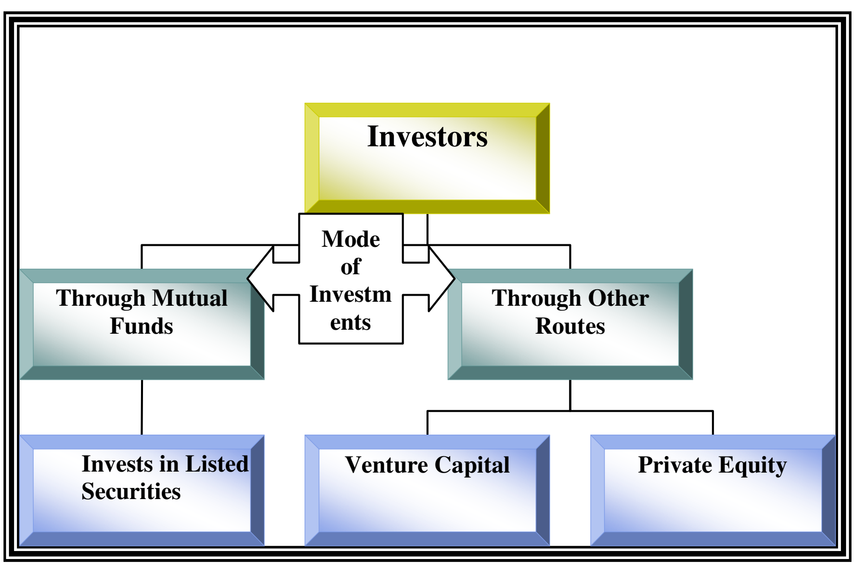
These estimates indicates that approximately double or triple the amount will be required to meet global commitments about infrastructure projects and this much need can not be fulfilled without greater private-sector investment and access to domestic capital markets through various investment vehicles.

Objective: The paper is an attempt to study rationale of Dedicated Infrastructure Fund as a budding source of capital for infrastructure creation in the country and a new avenue for business mantra in infrastructure due to differences in its USPs from current mutual fund schemes. It also highlights the present status of investments by retail investors in infrastructure in India and discuss role of pension funds in promoting Dedicated Infrastructure Funds in India and thereby exploring new possibilities of investments contributing in Infrastructure growth.

Present Status of Investments in Infrastructure:

Figure 2 is the diagrammatic representation of present status of investments by retail investors in infrastructure in India:

Figure 2



1. *"The return of infrastructure funds" http:// www.altassets.net/ features/arc/2007/ nz10320.php*

Currently, in India, financial investors can invest in infrastructure through the following two routes:

1. **Through Mutual Funds**-There are ten mutual funds schemes for investments in Infrastructure mentioned as under-

Table 2

S No.	Mutual Fund Scheme	Launch Date
1	UTI Thematic Infrastructure Fund - Growth	07-Apr-04
2	Birla SunLife Basic Industries – Growth	15-Jan-00
3	CanInfrastructure Fund - Growth	11-Sep-05
4	DSP ML India Tiger Fund - Growth	25-May-04
5	ICICI Prudential Infrastructure Fund - Growth	16-Aug-05
6	ICICI Prudential Power - Growth	24-Aug-94
7	Reliance Diversified Power Fund - Growth	15-Apr-04
8	Sundaram BNP Paribas CAPEX Opportunities Fund – Growth	05-Sep-05
9	Tata Infrastructure Fund - Growth	22-Dec-04
10	Tata Service Industries Fund - Growth	10-Mar-05

Source*: SEBI's report on DIF*

These funds on an average has performed well as total assets under management as on 30 Mar, 2007 in all the funds was Rs 8,522 crores. However, biggest constraint of these funds is that the open-ended and close-ended schemes of these mutual funds are permitted to take limited exposure to unlisted securities (5% & 10% respectively).Hence; these funds can not make investments to those infrastructure project or companies that are not listed or are unlikely to be listed or are having a short operating history.

2. **Through other routes** (Private Equity / Venture Capital)

- **Venture Capital**

SEBI Venture Capital Funds Regulations, 1996 gives guidelines for registered fund company or a trust (under SEBI) for raising funds from Indian, Foreign or Non Resident Indian investors by way of issue of units. However, venture capital also faces same constraint of limited investment (i.e.) 75% in unlisted equity shares or equity linked. Further, the investments in unlisted projects are in limited areas -

a) Nano technology,
b) information technology relating to software and hardware development
c) seed research and development,
d) biotechnology,
e) research and development of new chemical entities in the pharmaceutical sector,
f) production of bio-fuels
g) building and operating composite hotel-cum-convention center with a capacity of more than three thousand;
h) developing or operating and maintaining or developing, operating and maintaining any infrastructure facility as defined in the Explanation to clause(i)of sub-section (4) of Section 80-IA;
i) dairy or poultry industry;

Other than these, the Venture Capital Route faces the following issues:

1. Illiquidity in investments
2. High minimum investment size
3. Restrictions in Sales Promotion
4. Investment restrictions
5. Narrow reach of Venture Capital Funds
6. Lack of awareness

Therefore, in the present circumstances and due to various constraints wider retail investors participation in the Infrastructure Sector by directly owning infrastructure assets through the venture capital route would not be possible under the existing regulatory (SEBI VCF Regulations) for wider retail investments.

- **Private Equity**

Investments are made through securities of companies operating in infrastructure development along with companies providing value added services for infrastructure projects. Moderate liquidity is there in investments. Market depth of these investments is in moderate volumes.

Infrastructure Funds

Infrastructure Funds, as an asset class have seen significant growth in various markets in the last decade. They are quite prevalent in Britain, South Korea, and United States due to steady, long term income returns expected by investors to endure pension liabilities. Infrastructure funds are the types of mutual funds that invest through the listed equity route in infrastructure companies. Specialised fund managers, who invest in listed equities of infrastructure projects and companies (listed) with the basic notion of diversification across multiple assets, industries or geographical regions, manages them. Portfolio of these Infrastructure funds represents financial investments in projects across various sectors like energy, engineering, oil and gas, metals, capital goods, communication towers, utilities, rail facilities, seaports and more recently wind farms and real estate. Moreover, investments in information technology, banking and hotels also form important part of Infrastructure Fund's portfolios.

"Infrastructure funds vary in expected size from a meager US $ 100m to upwards of US $ 5 bn. Many of the new funds are still in the money-raising stage, so actual commitments may vary from the targets announced at launch. Nonetheless, of the 72 funds in the database, 20 had an expected value of less than US$ 500m, 17 between US$ 500m and US$ 1bn; 13 between US$ 1bn and US$ 2.5bn; 14 between US$ 2.5bn and US$ 5bn; and just four larger than US$ 5bn. The two largest, Borealis and CPP– both Canadian pension funds –have whopping US$ 10 bn and US$ 7 bn, respectively, allocated to infrastructure investing. In terms of geographic distribution, 56 of the 72 funds tend to be bunched across four main world regions: US, Europe, MENA countries, and India. The remaining funds focus on Africa, Asia and Australia and report a global focus without a clear target market. So far in 2007, the hot market is India, with five of the nine funds that were announced during the first quarter having a designated India focus. It is worth noting that 18 of the 20 largest funds are focused primarily on the US or European markets." [2]

Infrastructure funds as an investment avenue have attracted attention from Indian investors over the last few years. Funds houses like ICICI, UTI, Birla Sun Life, Tata, Canbank, Sahara and Reliance have infrastructure funds to their baggage. Principal MF, for instance, has a broad-based product aimed at infrastructure and services industries, while DSP Merrill Lynch has a product named as DSP ML T.I.G.E.R. Fund. The acronym stands for `The Infrastructure Growth and Economic Restructuring'.

2. Global Infrastructure Report 2007, the Rise of Infra Funds
(*http://crgp.stanford.edu/publications/articles_presentations/Orr_01_Infra_funds_2007pfie.pdf*)

<u>Table 3</u>

(As on 30th March, 2007)

S No.	Mutual Fund Scheme	Returns (%) 1 Year	Returns (%) 6 Months
1	UTI Thematic Infrastructure Fund - Growth	12.22	12.87
2	Birla SunLife Basic Industries – Growth	3.85	5.12
3	Can Infrastructure Fund - Growth	1.73	7.18
4	DSP ML India Tiger Fund - Growth	17.12	14.01
5	ICICI Prudential Infrastructure Fund - Growth	18.64	12.88
6	ICICI Prudential Power - Growth	12.69	9.48
7	Reliance Diversified Power Fund - Growth	24.37	19.26
8	Sundaram BNP Paribas CAPEX Opportunities Fund – Growth	5.19	6.53
9	Tata Infrastructure Fund - Growth	9.37	8.14
10	Tata Service Industries Fund - Growth	15.92	18.98

***Source**: SEBI's report on DIF*

Infrastructure funds in the last few years have given a mixed returns, table mentioned as above highlights that in the last year some of the better performers were ICICI Prudential Infrastructure Fund, Reliance Diversified Power Fund, Tata Service Industries Fund - Growth DSP ML India Tiger Fund, UTI Thematic Infrastructure Fund and Tata Service Industries Fund.

A list showing selected infrastructure funds denoting their funds sizes. It is noticed from the list that infrastructure funds have grown rapidly in South Korea and are also gradually prevailing in India.

Fund Management Company	Fund Name	Geographic Focus	Fund Size

Macquarie ShinHan Infrastructure Management Co. Ltd.	Macquarie Korea Infrastructure Fund (former Korean Road Infrastructure Fund)	South Korea	2,322(1)
Macquarie Korea Opportunities Management Inc.	Macquarie Korea Opportunities Fund	South Korea	1,000(2)
Darby Hana Infrastructure Fund Management Company	Korea Emerging Infrastructure Fund	South Korea	610
IDFC Private Equity	IDFC Private Equity Fund II	India	430
South East Asian Strategic Assets (General Partner) Ltd.	South East Asian Strategic Assets Fund L.P	ASEAN	250(2)
AMP Capital Investors	Infrastructure fund of India (TIFOI)	India	102
IL & FS Investment Managers Ltd	Nidhi	India	94(2)
IL & FS Investment Managers Ltd & ORIX Corporation	Pan –Asia Project Development Fund	Pan-Asia	84(2)
Viet Fund Management Ltd.	Vietnam Growth Investment Fund (VF2)	Vietnam	25
IL & FS Investment Managers Ltd	India Project Development Fund II	India	23
Feedback Ventures	India Infrastructure Initiative (3I)	India	2

Table 4 Selected Infrastructure Funds in Asia (2006)

***Source**: "The return of infrastructure funds" http:// www.altassets.com/ features/ arc/ 2007/ nz10320.php*

What are Dedicated Infrastructure Funds?

Dedicated Infrastructure funds are funds particularly formulated for investments in unlisted infrastructure projects and companies. These funds have outperformed well in Australia, South Korea and Singapore. These funds will seek investments from retail and institutional investors and will aim in harnessing these investments in critical infrastructure projects, and are expected to play an active role in infrastructure rejuvenation. This type of mutual funds will be investing its funds into unlisted securities both in equity and debt instruments. Since, the projects in infrastructure development has a long gestation period, therefore, generally in other countries they are operated as close ended schemes with minimum lock in period ranging from five to seven years. However, these funds will differ from familiar mutual funds in their structure, NAV calculations, valuation norms and other necessary aspects because of nature of investments.

Dedicated Infrastructure Funds and its Opportunity rationale

The notion of Dedicated Infrastructure Funds is evident in India after the Budget speech by the Hon'ble Finance Minister for the financial year 2007-08, stating its importance in boosting free flow of investments to the blooming infrastructure sector and by allowing mutual funds to offer them to investors. One can visualize that these novel Dedicated Infrastructure Funds will exhibit a new feather in the cap of the unabated mutual funds and will be a new saga in the journey of rewarding mutual funds. DIF will help in raising good amount of capital for vital infrastructure projects and will be an important avenue for investments offered to Indian retail investors, pension funds, companies, insurance companies as well as foreign institutional investors. DIF will aid in bridging infrastructure gaps to sustain growth trajectory by attracting large retail-investor participation. As per the Chairman & Managing Director IIFCL, Mr. S S Kohli, total financing requirements will touch $492 billion in the next five years, of this, $147 billion to come from private investments. It is also expected that share of private investment in total will rise from 17% to 30% by 2012 and by 2017; investments in total infrastructure projects will touch $1.48 trillion. Hence, it is necessary to attract and channelise more and more funds during next five years by raising through various sources of finance. Keeping this objective in mind, more emphasis is given now days in attracting private investments through Public Private Partnerships for additional and improved efficiency in segments like roads, ports, airports & railways. Further, international investors like 3i, Blackstone, Citigroup, Macquarie Bank (Australia), Mizuho (Japan), Deutche Bank are strongly interested in India's Infrastructure[3].

It is therefore imperative to have good governance of Dedicated Infrastructure funds for directing savings and investments into the infrastructure sector. Securities Exchange Board of India has taken up this venture and has formulated a committee for chalking out norms and guidelines for launch and operations of Dedicated Infrastructure Funds (DIF's).

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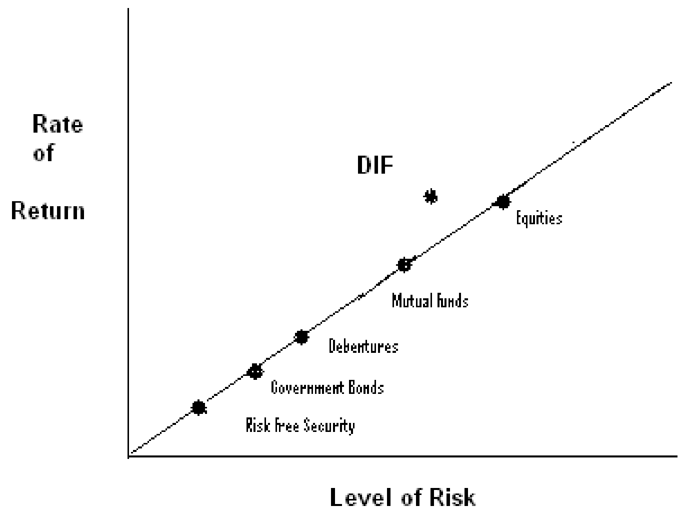
3. "India's Infrastructure –Issues and Prospects" by Mr SS Kohli, Chairman & Managing Director, IFCL (http://www.ncaer.org/downloads/lectures/jipss2008//kohli-p.ppt).

Figure 3

Dedicated Infrastructure Funds: Risk-Return Profile (Hypothetical)



The difference between infrastructure and other assets classes help to explain the risk return characteristics of DIF as distinct from other asset classes. In conceptual terms, it can be very well projected that on risk-return profile DIF will stand above to other mutual funds schemes as they are expected to provide higher returns. However, they may stand on higher risk band as compared to other mutual fund schemes depending largely on the characteristics of the individual investments that make up the portfolio.

Pension Funds: Harbinger of hopes

Pension funds in India can play an active role in engrossing Dedicated Infrastructure Funds in the Indian Mutual Fund Industry. Pension funds symbolises billions of dollars of investment capital, some of which could be harnessed for investment in Dedicated Infrastructure Funds. Through investments by pension funds, indirectly investor's money can put to work to build a more sustainable world while earning competitive returns both today and over time. It is also evident in other financial markets where there is booming infrastructure funds like Australia, Singapore, and South Korea and in Europe, Pension funds and other institutional investors with long investment horizons that do not have large investment allocations or in-house investment teams are typically attracted to unlisted wholesale funds. The suggestion of pension funds is also mentioned in the report, formulated by the committee set up by SEBI, titled 'Launch of Dedicated Infrastructure Funds (DIF's) by Mutual Funds', is mentioned as under-

"In India the total progressive contribution (AUM), as of 31 March 2006, to EPFO (the Employees Provident Fund Organisation) schemes is Rs. 2, 16,110 crore (US$52.7 bn). Even if a part of the contribution is invested in the proposed DIFs, it will significantly help in promoting this new investment vehicle. In fact, early participation by pension funds and insurance companies can ensure a successful take off for DIFs and will help in attracting other retail and institutional investment. Even an initial 1% allocation by pension funds, or an incremental 10% (of yearly contributions), at about Rs. 2,000 crore, to proposed DIFs can play a crucial role in making DIFs a significant source of capital for infrastructure creation in the country. Indian Pension funds and Insurance companies investing in Infrastructure funds will also increase the comfort level of overseas pension funds for investing in DIFs. In fact, given the right policy environment, pension funds from OECD countries, which manage assets in excess of US$18 trillion, can become a long term source of capital for the infrastructure sector in India."

Therefore, if a pension fund extends their cooperative hand; overseas pension funds and insurance companies will also be attracted towards them and will be helpful in promoting this investment vehicle.

External Factors Analysis Summary (EFAS) of Dedicated Infrastructure Funds

(Weights and values assigned are assumptions by the researcher, taken to reflect likely values once DIFs are launch)

The issues which DIF will face are divided into opportunities and threats and environmental appraisal is structured by using External Factor Analysis Summary. Investor scans macro environmental forces and tasks environments and identifies a number of external factors relevant to a specific mutual fund scheme. EFAS Table is one way to organize the external factors into the generally accepted categories of opportunities and threats and analyse how well the fund is responding to the opportunities and threats.

Table mentioned under, outlines the external factors into the generally accepted categories of opportunities and threats a well as to analyse how well DIF will respond to these specific factors in the light of the perceived importance (weights) of these factors to the fund .Hence, total weighted score indicates how DIF will respond to current and expected factors in its external environment. The score can be used to compare its actual performance with the projected and can also be used for a comparative study with other mutual fund schemes. It will be helpful in knowing where DIF stands in the midst of opportunities and threats in the environment.

Table 5

S No.	External Factors	Weights	Projected Rating	Weighted score	Comments
	Opportunities				
O1	Provision of higher tax incentives to investors under Sec 80C	0.05	3.5	0.175	Enhancement of limit under Section 80C is proposed to increase from Rs.1,00,000 to Rs.2,00,000 with the incremental limit exclusively set apart for investment in designated infrastructure funds.
O2	Boom in Real Estate Investments	0.02	4.5	0.09	High Correlation with Real Estate Investments
O3	Share of private investment in infrastructure projects is projected to rise from 17% to 30% by 2012.	0.03	5	0.15	A vehicle is required to direct savings and investments into the infrastructure sector as many of these companies will have unlisted securities
O4	Need for Infrastructure expansion in India is enormous	0.09	5	0.45	Good amount of progress has been made on several fronts, especially in roads, telecom, ports and airports sectors.
O5	GDP growth rate is directly linked with infrastructure companies and India's current GDP hovers around 7.7%	0.02	2.5	0.05	An average investments rate i.e 25.1 % of GDP requires increment to increase growth rate of Indian Economy
O6	A relatively high income yield contribution to total return on Infrastructure projects	0.02	4	0.08	Value added factor
O7	A relatively low level of volatility reflecting periodic appraisal based valuation (by valuation experts) and some resilience to the economic cycle on the back of fairly steady demand for their services.	0.05	4	0.2	Infrastructure investments can generate stable and often predictable yields

O8	No corresponding volatility due to changes in equity market	0.06	5	0.3	No impact of volatility of equity market on DIF is an added advantage
O9	Infrastructure investments typically have high upfront capital commitments, low operating costs and relatively predictable cash flows and operational risks.	0.04	3.5	0.14	This trait of Infrastructure investments can help in magnifying returns
O10	Universe of unlisted infrastructure companies is large in India	0.05	3.5	0.175	Can be encashed through DIF
O11	Pension funds and Insurance companies symbolizes billions of dollars of investment capital,	0.07	3	0.21	Participation by pension funds and insurance companies can ensure a successful journey for DIFs and will boost credibility
				2.02	
	Threats				
T1	Middle class outlook of viewing mutual funds as an alternative of fixed deposit/bonds	0.05	2	0.1	Needs to be change
T2	Drastic decline of NAV of existing funds	0.001	1	0.001	Affects entire mutual fund Industry
T3	High beta in Infrastructure companies due to complex funding structure	0.069	3	0.207	Infrastructure companies are generally highly geared and owned in more elaborate funding structures than is typical of companies in other sectors introducing additional risk.
T4	There has been a problem of poor reach in distribution networks and channels in M.F. Industry	0.03	2.5	0.075	Requires Investor Awareness campaigns
T5	Inflationary pressures and weak domestic currency provide no incentive for holding long-term securities	0.04	1.5	0.06	Can reduce expected productivity from DIF in terms of returns
T6	Ignorance of Investors	0.05	3	0.15	Investors in India are risk avoiders and many of them are not properly aware about the various investment avenues.

T7	Question of credibility of the credit rating agencies in India	0.09	4	0.36	Credit rating is considered to provide true information for the prospective investors as brokers and underwriters can give biased option
T8	Illiquidity and long payback periods in Infrastructure projects	0.07	3	0.21	DIF will not be preferred by speculators. Effective strategy required to combat this threat.
T9	Project management issues and political risks (government intervention)	0.04	1.5	0.06	Right evaluation for investments in various infrastructure projects and companies
T10	Spike in Inflation is mainly due to increase in the prices of agricultural commodities, fuel, non metallic mineral products and base metals.	0.03	1	0.03	Can increase overall cost of Infrastructure projects there by reducing income returns.
T11	Strong Competition with other mutual fund schemes	0.03	2	0.06	Specially on the basis of liquidity

The total weighted score of DIF is 3.33 which indicates that this fund will occupy above average position with respect to opportunities and threats .It is projected that DIF have good scope in India as total weighted score of opportunities is greater than total weighted score of threats .Provided that fund mangers select quality investments, encash unique nature of infrastructure investments and actively manage the investments to extort high value to investors.

Comparison of Dedicated Infrastructure Funds with Common Mutual Funds:
(As per the recommendations and report of the Committee (constituted by SEBI) on 'Launch of Dedicated Infrastructure Funds by Mutual Funds')

Point of Difference	Dedicated Infrastructure Funds	Current Mutual Funds Schemes
Product Structure	DIF will operate as close ended funds and will largely invest in unlisted	These funds can be either open ended or close ended. According to the

	companies, with longer gestation periods. DIFs can be structured uniquely to benefit both the ongoing infrastructure initiatives as well as the potential retail investors.	guidelines under MF Regulations, 1996, open ended and close ended mutual fund schemes can only take limited exposure to unlisted securities (5% & 10% respectively). These funds cannot direct investments to core infrastructure projects or companies that are unlikely to be listed and have a short operating history.
Maturity Period	A maturity period of seven years with a possibility of one or two extensions at the request of unit-holders is proposed. Further, the option of multiple extensions to DIF's to allow them to operate to perpetuity (thereby recycling the capital across projects) is proposed.	Maturity of these funds varies with the aims, objectives and the nature of mutual fund schemes. However, in general, maturity period of various schemes are shorter than the period specified for DIF.
Liquidity	The proposed DIF's would be listed on at least one of the recognized stock exchanges, thereby providing liquidity to investors. Further, DIF should be listed within 24 months of the launch of the fund. This will provide some medium term liquidity to the investors and also give the DIF's a window to deploy the funds.	Every close ended scheme get listed on the exchanges after a short time. As per the provision these schemes shall be listed in a recognized stock exchange within six months from the closure of the subscription.
Type of Investments	DIF's be allowed to invest up to 100% of its funds into unlisted securities. DIF's would be eligible for investing in both equity and debt to balance the needs of the sector.	These funds are allowed to invest a small proportion into unlisted securities. In case of open-ended mutual funds limit is 5 % of its NAV and case of close ended it is 10 %.
Investments Permitted (Limits):	DIF's may be allowed to take control of the asset, if they so desire, and own up to 100% of the paid up capital. Additionally, investments in listed companies will not be more than 10 % of NAV at the time of making investments. To reduce risks and to enable proper diversification of the funds, DIF's will not invest more than 20% of their NAV in the equity/debt/hybrid instruments of a single issuer and may be allowed to invest up to 50% of their NAV in un-rated debt papers.	A mutual fund scheme are instructed not to invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All the investments made by such schemes are made with the prior approval of the Board of Trustees and the Board of asset management company.Further, mutual funds are not allowed to own more than ten per cent of any company's paid up capital carrying voting rights and are expected not to invests in - (a) any unlisted security of an associate or group company of the sponsor; or

		(b) any security issued by way of private placement by an associate or group company of the sponsor; or (c) the listed securities of group companies of the sponsor which is in excess of 25% of the net assets . **(As per SEBI Mutual Funds Regulations, 1996, Chapter VI).**
Exit	The DIF's can look to exit the investments in one or a combination of the following options: • Strategic Sale • Sale to Financial Investors • IPO's-Buyback Agreements with promoters and partners • Concession Expiry	It is easier for current mutual funds operating in the country to enter and exit the investments made in securities. However, it should be considered by the AMC that the investments made and sold by the fund managers are in the interest of the unit holders and shall be responsible for the overall risk management function of the mutual fund.
Disclosures-	In addition to preparation, disclosure and reporting of the NAV's and annual accounts of the scheme, the DIFs shall also report financial review of each Investee Company and the status of implementation of various projects, on quarterly basis. The valuation methodologies should also be disclosed to investors.	AMC are required to follow all the guidelines about mandatory disclosures as per SEBI Mutual Funds regulations, 1996, Chapter VII i.e. General Obligations. However, reporting of financial review of each Investee Company is not necessary.
Valuation Norms and Disclosures	DIF will be following valuation practices: 1. Individual assets would be valued after every six moths of the investment. 2. DIF's would report the NAV to the investors at the time of every valuation of each asset and also at each quarter end so that the investors know the performance of the company more frequently. 3. The DIF's should engage an approved consultant to value the assets semi-annually. Such an approved list can be drawn up by the SEBI registered rating agencies and could comprise Institute of Chartered Accountants of India (ICAI) members.	Every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date. The Net Asset Value of the scheme shall be calculated and published at least in two daily newspapers at intervals of not exceeding one week: Provided that the Net Asset Value of any scheme for special target segment or any monthly income scheme which are not mandatorily required to be listed in any stock exchange under Regulation 32, may publish the Net Asset Value at monthly or quarterly intervals as may be permitted by the Board.
Different Parties involved in Valuation	As per the report there would be involvement of three parties for valuing investments.(I)Rating	In general, mutual fund schemes can take assistance of various consultancies and advisory services

	agencies for drawing a list of approved consultants. The rating agencies themselves can also act as the valuation consultant. (II)Consultants will value each investment (in the company or projects, as the case may be) of the DIF periodically.(III)Valuers will be appointed by consultant for valuation of specific underlying assets of the investee companies. The list of such valuers will also have to be approved by the rating agencies.Further, the approved consultants for respective DIFs, will be replaced after every three years so as to ensure stronger governance and transparency	for valuation and investments. However, it is not mandatory as per the regulations to employs specialist or any professional staff for carrying out valuation exercises.
Fees/ Expense ratio	It is suggested in the report that maximum overall permissible expense ratio for DIFs including investment management fees will be additional 1% over and above the specifications in the Mutual Fund Regulations. This provision is accommodated in the report as DIF performance will highly be dependent upon in-depth research, greater efforts in generation of information and higher level of monitoring of investments. Additionally, the Committee suggested that the DIFs will be allowed to charge 20% performance fee above the hurdle rate.	Reg 52 provides guidelines about the fees and expenses on issue of schemes to be followed by Mutual Fund Schemes – The Asset Management Company may charge the mutual fund with investment and advisory fees which are fully disclosed in the offer document subject to the following namely: - (i) One and a quarter of one per cent of the weekly average net assets outstanding in each accounting year for the scheme concerned, as long as the net assets do not exceed Rs. 100 crores, and (ii) One per cent of the excess amount over Rs. 100 crores, where net assets so calculated exceed Rs. 100 crores. Additionally, for schemes launched on a no load basis, the asset management company will be entitled to collect an additional management fee not exceeding 1% of the weekly average net assets outstanding in each financial year.
Valuation Methodologies:	The valuations of the equity shares (assets) will depend on the discretion of the third party valuers. Besides this,	Mutual Fund shall value its investments for traded and non-traded securities. (I)Traded Securities-When

	following consideration will also be followed- • Each new acquisition should be reported at cost adjusted for transaction costs. •Broad parameters of valuations, assumptions and methodology should be clearly defined for each asset at the time of acquisition by respective DIFs and with the approval of trustees. • Revisions to valuations should be based upon any change in original assumptions and sufficient rationale for the change should be provided. • Assumptions and valuations will change with reference to: - Changes to the discounting rate for future cash flows, based on macro parameters like interest rates, inflation, GDP growth estimates, Forex rates etc. - Reassessment of earnings and cash flows on the project based on the assets' actual performance like construction schedule, achievement of originally stated targets, changes in regulatory environment. - Market related factors like recent acquisition in the sector, liquidity etc.	the securities are traded on more than one recognized stock exchange, the securities are valued at the last quoted closing price on the stock exchange where the security is principally traded. It would be left to the asset management company to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. (II)Non-traded securities shall be valued "in-good faith" by the asset management company on the basis of appropriate valuation methods based on the principles approved by the Board of the asset management company. Such decision of the Board must be documented in the Board minute and the supporting data in respect of each security so valued must be preserved. For the purpose of valuation of non-traded securities, the following principles should be adopted:- (a) equity instruments shall generally be valued on the basis of capitalization of earnings solely or in combination with the net asset value, using for the purposes of capitalization, the price or earning ratios of comparable traded securities and with an appropriate discount for lower liquidity; (b) debt instruments shall generally be valued on a yield to maturity basis, the capitalization factor being determined for comparable traded securities and with an appropriate discount for lower liquidity; (c) while investments in call money, bills purchased under rediscounting scheme and short term deposits with banks shall be valued at cost plus accrual; other money market instruments shall be valued at the yield at which they are currently traded.

Liquidity	The proposed DIF's would be listed on at least one of the recognized stock exchanges, thereby providing liquidity to investors. Further, DIF should be listed within 24 months of the launch of the fund. This will provide some medium term liquidity to the investors and also give the DIF's a window to deploy the funds.	Close ended scheme are listed on the exchanges after a short time. As per the provision these schemes shall be listed in a recognized stock exchange within six months from the closure of the subscription. Provided that listing of close ended scheme shall not be mandatory - (a) if the scheme provides for periodic repurchase facility to all the unitholders with restriction, if any, on the extent of such repurchase; or (b) if the scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows or physically handicapped or any special class of persons providing for repurchase of units at regular intervals; or (c) if the details of such repurchase facility are clearly disclosed in the offer document; or (d) if the scheme opens for repurchase within a period of six months from the closure of subscription.

Conclusion:

Dedicated Infrastructure Funds have tremendous potential in seizing opportunities in infrastructure and resource sectors .It is projected that DIF will find exciting new avenues for business mantra in infrastructure due to differences in its USPs from current mutual fund schemes . However, it is suggested that DIF should be subject to regular review and evaluation to ensure that they remain relevant and viable. DIF is expected to provide promising prospects to retail investors for encashing the benefits of infrastructure initiatives in India.

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