



# Rupee slumps, opportunities rise: A guide to international investing

With the rupee hitting 90 to a US dollar, safeguarding portfolios against currency risks is also becoming crucial

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**W**ith the rupee slipping to record lows of ₹90 against the dollar, the need to hedge investment portfolios against currency depreciation is yet again in focus. This concern is especially relevant today, as Indians are increasingly spending in foreign currencies—on overseas travel, education, and other big-ticket expenses. While the rupee has depreciated 5% against the dollar recently, it has historically weakened around 2.5–3% per year. Global diversification can benefit from rupee depreciation, as a weakening rupee boosts the value of returns earned abroad.

With mutual funds limited by overseas investment caps and international ETFs often trading at premiums on domestic exchanges, the usual avenues for global diversification remain constrained. Here's a look at some potential options.

## Feeder funds

Among domestic mutual funds, there are some feeder funds that remain open for subscription. These are funds that invest in international funds. Hence, these are called fund of funds. "However, the underlying funds are actively managed and do not offer the same comfort as investing in a broad index, where there is no risk of a fund manager underperforming the benchmark," said Vishal Dhawan, founder of Plan Ahead Wealth Advisors. "Earlier, investors could rely on funds tracking broad-based ETFs and indices, but those options are currently limited due to overseas investing restrictions."

Note: open funds have limited overseas capacity, so watch out for updates if limits are exceeded.

## Through foreign-broker route

Foreign broker platforms offer an alternative way to invest in US equities and ETFs. Client holdings—fractional or full—are kept in pooled omnibus accounts under global custodians. Sites like Vested and IND-Money provide access to ETFs listed on overseas exchanges, allowing investors to track diversified indices.

Fractional shares work differently here. Investors can buy a fraction of a stock's value—for example, a \$270 share can be purchased one-tenth at \$27, or other fractions. It aggregates orders, buys full shares via a US brokerage account, and allocates proportional fractions to each investor. Dividends are credited in proportion to the fraction held, enabling participation in price movements and corporate actions without buying full share.

Note that investments aren't held in the investor's own demat account but in the accounts of the platform's foreign broker partners, with invest-

## How and why of international investing

Rupee hitting all-time low shows importance of international diversification in your investments to hedge against currency depreciation.

### Why you need international diversification

- ▶ Rupee has historically depreciated against US dollar
- ▶ Hedge against it with dollar-denominated investments
- ▶ Make up for rupee depreciation for overseas spending



### Taxation

- ▶ Need to disclose assets under schedule FA (foreign assets)
- ▶ Not required for Gift City investments
- ▶ International investments get LTCG tax rate of 12.5% after 2 years\*\*
- ▶ GIFT City cat-III outbound funds taxed at fund-level; not at investor-level
- ▶ TCS of 20% above ₹10 lakh; can be claimed

LTCG: Long-term capital gains, TCS: Tax collected at source

\*\*Short-term capital gains are taxed at investor's slab rate  
Note: The Reserve Bank of India's (RBI) Liberalised Remittance Scheme (LRS) allows resident individuals to remit up to \$250,000 per financial year

### What are your options?

- ▶ Feeder funds\* from domestic mutual funds
- ▶ ETFs, stocks on platforms such as Vested, INDMoney
- ▶ Stock options available through GIFT City
- ▶ Retail outbound funds in GIFT City (min investment: \$5,000)\*
- ▶ Vested recently launched global funds



\*Only DSP MF has launched, others working on it

\*Feeder funds are fund-of-funds that invest in mutual funds managed by foreign fund managers

Note: ETFs are exchange-traded funds that track popular global indices, eliminate fund-specific risk of underperformance

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### What should investors do?

- ▶ Prefer ETFs, index funds that track broader indices.
- ▶ Active funds may underperform indices at different points in time.
- ▶ Try to avoid direct foreign stocks or overseas fund managers.
- ▶ Build allocation between 10% and 30% in a staggered manner.
- ▶ Avoid overchurn; high-tax incidence; stick to long-term.

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mentors as the beneficiary. These investments are insured in the US by the Securities Investor Protection Corporation (SIPC) for up to \$500,000.

## Gift City funds

As of now, there is only one retail outbound fund on Gift City, which was launched by DSP MF. The minimum investment in DSP's retail fund is \$5,000 (around ₹4.5 lakh), with incremental investments of \$500. This fund is available on Vested and IndMoney. But, it differs in terms of taxation. The tax impact occurs at the fund level, not the investor level.

For example, if a dividend is received from an investee firm, the fund must pay tax at a marginal tax rate of 35.88%. If there is a short-term gain from an investment (when holding period is less than two years), the fund will pay a short-term capital gains tax rate of 42.74%. Long-term capital gains are taxed at 14.95% at the fund level.

To mitigate tax impact, the fund will maintain a 4–5% cash reserve to facilitate redemptions, avoiding the

need to sell investee shares in short term. An exit load will apply to investors redeeming before two years, with proceeds added back to the fund.

PPFAS has got approval to launch new Gift City outbound passive funds—Parag Parikh IFSC S&P 500 FOF and Parag Parikh IFSC Nasdaq 100 FOF—but the launch is yet to happen.

## Global funds

Another route for global exposure is through international mutual funds. These are professionally managed

funds that invest across various markets, including US, Europe, Asia and emerging economies. Vested has begun offering global funds that are domiciled in regulated jurisdictions, such as Ireland and Luxembourg, which are widely used for cross-border fund distribution. These structures allow Indian investors to participate in global equity or fixed-income strategies without the complexity of selecting individual stocks.

The process is digital: investors complete a one-time KYC, link a bank

account and remit money in dollars. "Global managers such as BlackRock, Vanguard, Fidelity and Pimco are available, and investors can start with small ticket sizes—some as low as \$10," pointed out Viram Shah, founder of Vested Finance.

## Stocks via Gift City

The National Stock Exchange (NSE) IFSC provides access to only the top 50 US stocks, and the structure differs from buying a full share. Investors receive a depository receipt that represents a fraction of the underlying stock. Each stock has a depository receipt ratio that determines the minimum investment. For example, if a stock trades at \$210 and the DR ratio is 1:25, investors can buy one-twenty-fifth of the share for \$8.40. Corporate actions are passed on in proportion to the fraction held.

On the BSE Gift City INX platform, fractional ownership is not available. India INX does not list US stocks on its exchange in the same manner as NSE IFSC does through depository receipts. Instead, India INX provides investors with access to US markets through its Global Access Program, which operates on a broker-tie-up

model. Under this setup, India INX acts as an introducing broker.

When an investor wants to buy a US stock or ETF through the platform, the order is routed to international broker partners who are licensed to execute trades on global exchanges. The shares are then held in custody through these foreign intermediaries, not as listed instruments on the India INX itself.

This structure is fundamentally different from the NSE IFSC, where select US stocks are made available in the form of unsponsored depository receipts that trade directly on IFSC exchange. India INX, by contrast, provides a gateway to global markets rather than running a separate listing framework for foreign equities.

## Taxation

All foreign investments—except those made through Gift City—must be reported under Schedule FA (Foreign Assets) in the income-tax return.

"Gift City is considered Indian territory for tax purposes. Hence, the requirement doesn't apply to resident Indians," pointed out Harshal Bhuta, partner at P. R. Bhuta & Co. Chartered Accountants.

Apart from the specific tax rules applicable to Gift City-domiciled retail funds, foreign investments follow the standard framework: gains on assets held for less than two years are treated as short-term capital gains and taxed at the slab rate, while holdings beyond two years are taxed as long-term capital gains at 12.5%.

## What should investors do?

International exposure is crucial for mitigating the impact of the rupee's depreciation on your investments, but it should be built with a measured approach, according to financial advisors.

"While the global funds being launched in Gift City offer a useful avenue for diversification, analysing and selecting the right fund manager may be challenging for retail investors. Those who prefer a simpler route may instead consider broad-based ETFs or index funds listed on foreign exchanges, which are available on the platforms that allow foreign investments," said Dhawan.

At the same time, it is important not to get carried away by the recent outperformance of international markets relative to domestic ones, he said. "An ideal exposure typically ranges between 10% and 30% of the portfolio, but as US markets have already rallied sharply, investors may choose to start with a lower exposure and build it gradually," he added.



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