Family offices in India betting big on overseas investments

As per data from RBI, the cumulative investments under the Liberalized Remittance Scheme increased nearly three-fold from $441 million in FY17-18 to $1,256 million in FY22-23

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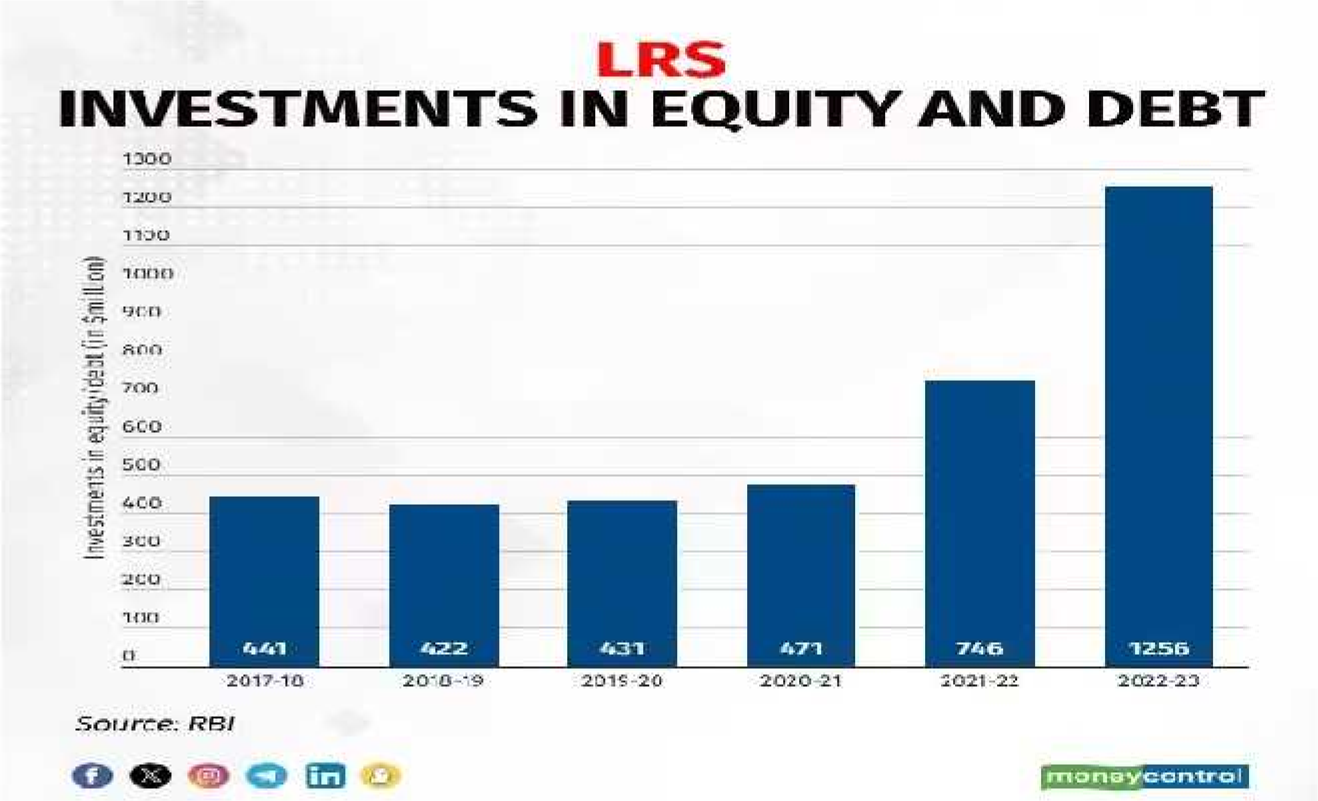
Family offices have increased their exposure in the international markets with a special focus on new-age technology companies in the US, including the FANG group of stocks.

Family offices that often invest in asset classes across categories are steadily increasing their exposure towards overseas investments with US-based companies emerging as hot favorites on account of factors like diversification, a depreciating rupee, and easier access to global markets.
According to people familiar with the development, family offices have increased their exposure in the international markets with a special focus on new-age technology companies in the US, including the FANG group of stocks, which refers to Facebook, Amazon, Netflix, and Google.

Incidentally, data from the Reserve Bank of India (RBI) corroborates this theory as the cumulative investments under the Liberalized Remittance Scheme (LRS) increased from $441 million in FY17-18 to $1256 million in FY22-23.

Under the LRS, RBI allows all resident Indian individuals, including minors, to freely remit up to $2,50,000 per financial year for any permissible current or capital account transaction or a combination of both.



"Broadly, family offices are investing in green energy, artificial intelligence, robotics, and healthcare globally," said Nakul Beri, senior managing director at Global Client Origination at Waterfield.

Sraboni Haralalka, co-founder of Woodhouse Capital, believes that many healthcare start-ups in the United States are reaching out to family offices in India for investments and if family offices find the idea interesting, they invest a permissible amount in these start-ups.

Depending on the products available, allocation of investments for family offices is 50 to 60 percent in the US, 20 percent is invested in emerging markets like China, South Korea, Brazil, and the balance 20 percent is invested in developed markets like Europe and Japan, said Himanshu Kohli, co-founder at Client Associates.

Why the increase?

Diversification, a depreciating rupee, and easier access to global markets are the main reasons for more family offices investing abroad, said experts.

"Access to information, easy digital investing platforms, and global advisors chasing Indian family offices are acknowledging the need to diversify their financial portfolios geographically," said Anuj Kapoor, managing director and chief executive officer of Private Wealth Group at JM Financial. He further said that they want to move away from the hitherto home bias and participate in global equities for accessing global growth.

Gradual devaluation of the Indian rupee against most of the major currencies as well as the periods when Indian equity markets appear inflated make family offices invest in global markets as one of the avenues of diversification, said Haralalka.

In the recent past, many new channels for investing in global markets have come up, which is another reason for the increase in remittances. A greater access for to global equities was given by feeder mutual funds, however the limit for that stands exhausted now, said Shravan Sreenivasula, Executive Director – Investment Solutions Group, Avendus Wealth Management.

Among the very recent one is via GIFT city, where family offices can start their family investment fund (FIF) and invest in global markets. "Many family offices have applied to set up an FIF at Gift city. IFSCA has so far granted its first and only in-principle approval to billionaire Azim Premji's family office. Others, those who applied and those waiting to apply, are hoping for further approvals from the regulator soon," said Sreenivasula.

A pause in outward remittances

Meanwhile, tax on outbound remittances (LRS) was increased from 5 percent to 20 percent with effect from October 1, as per the amended Income Tax Act, 1961. A part of the crowd believes that an increase in tax on LRS has paused the money moving abroad for investments in the last few months.

"A person can claim back the 20 percent tax collected at source, however it becomes an administrative hassle," said a market expert on conditions of anonymity.