International Journal of Creative and Open Research in Engineering and Management
ISSN: 3108-1754 (Online)
Volume 02 Issue 11 November-2026 | Impact Factor: 3.5



GIFT City as a Gateway to Global Investment and International Portfolio Diversification for Indian Investors: A Descriptive-Analytical Study

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Context: MBA Finance OJT research based on internship exposure at Wealth First Portfolio Managers Ltd., Pune

How to Cite this Article:

Singhla, D. (2026). GIFT City as a Gateway to Global Investment and International Portfolio Diversification for Indian Investors: A Descriptive-Analytical Study. International Journal of Creative and Open Research in Engineering and Management, 02(11), 1-9. https://doi.org/10.55041/ijcope.v2i11.108

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https://doi.org/10.55041/ijcope.v2i11.108

Abstract

Indian investors remain substantially exposed to domestic economic, sectoral and market conditions. International investment can widen the opportunity set by providing access to foreign companies, industries, currencies and economic cycles. At the same time, it introduces market, currency, geopolitical, regulatory, taxation, liquidity and concentration risks. This study examines the role of GIFT City' s International Financial Services Centre (IFSC) in expanding global investment opportunities for Indian investors and considers how such opportunities may support international portfolio diversification. The study uses a descriptive-analytical design based on secondary research, official regulatory material, investment-product documents and practical observations recorded during an internship at Wealth First Portfolio Managers Ltd. It compares international mutual funds, global exchange-traded funds, fund-of-funds, managed portfolios and alternative investment structures on the basis of exposure, strategy, liquidity, risk and investor suitability. The study finds that GIFT City can function as an institutional bridge between Indian investors and global financial markets, but access alone does not create diversification. The quality of diversification depends on correlations, product concentration, currency exposure, costs, liquidity and investor objectives. The paper proposes a risk-based product-evaluation framework for wealth managers and concludes that international exposure should complement, rather than automatically replace, domestic investments.

Keywords: GIFT City; IFSC; international investment; portfolio diversification; global ETFs; currency risk; Indian investors

1. Introduction

Portfolio diversification is based on the principle that combining assets with different risk and return characteristics can reduce dependence on any single investment. Markowitz' s portfolio-selection framework shows that portfolio risk depends not only on the risk of individual assets but also on the relationship among their returns diversification extends this idea across countries, currencies, sectors and economic systems.

For Indian investors, overseas exposure may provide access to businesses and themes that are less represented in Indian markets, including global technology, semiconductors, robotics, healthcare and other specialised industries. However, international investing is not risk-free. Foreign exchange movements may reduce or increase rupee returns, while geopolitical events, differences in regulation, taxation and market liquidity can affect outcomes.

GIFT City, located in Gujarat, hosts India' s IFSC and is designed to support internationally oriented financial services. IFSCA describes its mandate as the development and regulation of financial products, financial services and financial institutions in the IFSC [2]. The fund- management framework has evolved through the IFSCA (Fund Management) Regulations, 2025 and related circulars [3]. This makes GIFT City a relevant setting for examining how Indian investors may obtain structured access to global investment opportunities.



2. Research Problem and Objectives

The availability of international products does not by itself demonstrate that they improve a portfolio. Investors must understand whether a product provides broad geographical exposure or merely concentrated exposure to one country, sector or theme. They must also evaluate liquidity, fees, currency exposure, investment horizon and regulatory structure.

The research problem is therefore: **How can GIFT City' s IFSC ecosystem expand global investment access for Indian investors, and under what conditions can such access contribute to international portfolio diversification while managing additional risks?**

The study has five objectives:

1. To examine the role of GIFT City' s IFSC in facilitating international investment access.
2. To identify and classify global investment avenues available through or associated with the IFSC ecosystem.
3. To compare selected products by strategy, exposure, risk, liquidity, currency impact and investor suitability.
4. To assess the potential contribution of international exposure to geographical and sectoral diversification.
5. To examine the risks and practical constraints associated with international investing.

3. Review of Literature

Modern Portfolio Theory establishes that diversification can improve the risk-return trade-off when assets are not perfectly correlated [1]. Grubel argued that international portfolio diversification can generate welfare gains by allowing investors to combine assets from different national markets [4]. Solnik similarly questioned the assumption that domestic diversification alone is sufficient and highlighted the potential value of investing across countries [5].

The benefit of international diversification is not constant. Bekaert and Harvey found that the integration of emerging markets with world capital markets can vary over time [6]. This implies that correlations and diversification benefits may change during crises, structural reforms and periods of increased global integration. Therefore, a product should not be described as diversifying merely because it is foreign-domiciled or denominated in a foreign currency.

The literature also identifies currency risk as an important part of international portfolio management. A foreign asset produces a local-market return and a currency-conversion effect when measured in rupees. A favourable currency movement can increase rupee returns, while depreciation of the foreign currency can reduce them. This makes currency analysis necessary even when the underlying asset performs well.

The preliminary gap identified in the OJT report is the limited integration of three areas: international diversification theory, the institutional development of GIFT City and practical comparison of global investment products for Indian investors. This paper addresses the gap through a structured, product-oriented analysis rather than claiming a causal or statistical effect.

4. Research Methodology

The study follows a descriptive and analytical research design. It is based mainly on secondary data from IFSCA, GIFT City-related institutional material, RBI information, SEBI-related regulatory material, official fund and ETF documents, academic literature and market information.

The internship at Wealth First Portfolio Managers Ltd. provides practical context. During the internship from 30 May 2026 to 18 July 2026, the researcher was exposed to equity research, sector analysis, mutual funds, ETFs, PMS, SIFs, AIFs, thematic investment research and portfolio-diversification concepts. These observations are treated as experiential evidence and not as a

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representative survey or independently verified empirical dataset.

Selected investment avenues are compared using the following dimensions: investment objective, underlying assets, geographical exposure, sector concentration, management style, liquidity, currency exposure, risk, investment horizon and suitability. The study does not claim statistical significance, causal relationships or actual client-level portfolio performance. Where numerical data is unavailable or product structures differ, the analysis remains qualitative.

5. GIFT City and the Global Investment Ecosystem

GIFT City' s IFSC provides a specialised regulatory and institutional environment for international financial activity. The IFSCA website records a continuing stream of regulatory developments relating to fund management, scheme filing, reporting, fiduciary
governance, distribution and investment services [2] [3]. This evolving framework is
relevant because product availability, investor eligibility, disclosures and operational requirements may change over time.

The ecosystem may support several internationally oriented avenues, including global funds, fund-of-funds, ETFs, foreign securities, alternative investment structures and managed portfolios. The precise legal and operational route differs by product. Consequently, the paper distinguishes between products established or managed in the IFSC and global products that were studied during the internship as examples of international exposure.

GIFT City can reduce some practical barriers by bringing international-oriented financial services into an Indian institutional setting. Nevertheless, it does not remove investment risk. Investors still require product-level due diligence, suitability assessment and an understanding of the applicable regulatory and tax framework.

6. Comparative Analysis of Investment Avenues

Avenue	Main exposure	Main potential benefit	Main risks or constraints	Broad suitability
International mutual fund or fund-of-fund	Overseas markets or securities	Diversified access with professional management	Fees, underlying-fund concentration, currency and market risk	Investors seeking managed, medium- to long-term exposure
Global ETF	Index, country, sector or theme	Transparent and generally liquid market exposure	Tracking error, concentration, volatility and currency risk	Investors able to understand market and product structure
Leveraged or specialised ETF	Narrow theme or leveraged exposure	Targeted exposure and higher upside potential	Compounding effects, high volatility and substantial loss risk	Only suitable for investors with high risk tolerance and appropriate horizon



Managed global portfolio/PMS	Selected foreign securities or strategies	Greater customisation	Higher minimums, manager risk, liquidity and reporting complexity	Sophisticated or HNI investors
Alternative investment structure	Specialised or less traditional strategies	Strategy diversification	Lower liquidity, complexity, valuation and regulatory risks	Investors able to bear complexity and illiquidity

The internship included study of products and themes such as SOXX, SMH, SOXL, BOTZ, artificial intelligence, robotics, healthcare, energy and defence. These examples demonstrate that "international" does not necessarily mean "diversified." A semiconductor ETF may provide international exposure but remain concentrated in one industry. A robotics or AI product may carry thematic and valuation risk. A broad global fund may offer wider diversification but may also have higher fees or less customisation.

Product selection should therefore follow this sequence: investor objective, required exposure, risk assessment, currency assessment, liquidity review, cost review, diversification contribution and ongoing monitoring.

7. Benefits and Risks of International Diversification

International exposure may provide five main benefits. First, it can reduce dependence on the Indian economic cycle. Second, it can provide access to sectors and companies that are less available in the domestic market. Third, it can diversify sources of revenue and economic growth. Fourth, foreign-currency assets may provide a partial hedge against rupee weakness. Fifth, it can expand the opportunity set available to wealth managers and HNI investors.

These benefits are conditional. Global markets may become more correlated during periods of stress, reducing the protection expected from geographical diversification.
Bekaert and Harvey's findings on time-varying integration support this caution [6]. A portfolio can also appear diversified by number of securities while remaining concentrated in the same technology theme, currency or macroeconomic factor.

The principal risks are market volatility, currency fluctuation, geopolitical events, country risk, regulatory differences, taxation, liquidity constraints, manager risk, tracking error and concentration. Indian residents also need to comply with applicable foreign-exchange rules. RBI states that resident individuals may remit up to USD 250,000 per financial year under the Liberalised Remittance Scheme for permitted transactions, subject to the applicable rules and conditions [7]. This information should not be treated as a complete statement of tax or investment eligibility, which must be checked for the specific product and investor.

8. Findings and Discussion

First, GIFT City can broaden the investment universe available to Indian investors by providing an IFSC-based environment for internationally oriented financial services. Its role is best understood as an access and intermediation platform, not as a guarantee of superior returns.

Second, global products differ materially in their diversification quality. A broad international fund may diversify across countries and sectors, whereas a thematic ETF may increase concentration despite being geographically foreign. Product labels should therefore not replace exposure analysis.

Third, international diversification should be evaluated at the portfolio level. The relevant question is not whether an investor



owns a foreign product, but whether the product reduces dependence on existing domestic holdings and adds exposures with sufficiently different risk drivers.

Fourth, currency is both a potential source of return and a source of risk. Rupee-based investors should assess whether currency exposure is intended, hedged, partially hedged or unhedged.

Fifth, investor suitability is central. Risk tolerance, investment horizon, liquidity needs, tax position and financial objectives should determine the product choice. The same ETF or managed portfolio may be appropriate for one investor and unsuitable for another.

9. Practical Implications and Recommendations

Wealth managers can improve international-investment decisions by adopting a standardised global-product research sheet containing: objective, benchmark, holdings, country exposure, sector exposure, currency, expense ratio, liquidity, historical volatility, drawdown, taxation, regulatory structure and key risks.

A periodic portfolio review should examine domestic and foreign exposure together. It should identify concentration by company, sector, country, currency and investment theme. The review should also test whether global exposure remains consistent with the investor's risk profile and horizon.

Investor education should explain that international investing can diversify risk but cannot eliminate it. Product presentations should disclose the difference between broad market exposure, sector exposure and leveraged exposure. GIFT City awareness should be supported by current official product documents rather than promotional claims alone.

10. Limitations and Future Research

The study is based on secondary research and internship observations from one organisation and one ten-week period. It does not use a survey, client-level portfolio data or independently verified performance records. The selected products and regulatory conditions may change. The observations from Wealth First Portfolio Managers Ltd. should not be generalised to all PMS firms or Indian investors.

Future research should use verified monthly data to compare Indian and global indices, calculate correlations, volatility and Sharpe ratios, and estimate currency-adjusted returns. A further study could construct model portfolios with and without international exposure and test their performance across normal and stressed market periods. It could also examine investor awareness of GIFT City through a documented survey.

11. Conclusion

GIFT City's IFSC has the potential to serve as a meaningful bridge between Indian investors and international financial markets. Its importance lies in expanding access to global funds, ETFs, managed portfolios and alternative investment structures within a developing institutional framework. However, access should not be confused with diversification or superior performance.

The contribution of an international product depends on its underlying holdings, correlations, currency exposure, costs, liquidity and relationship with the investor's existing portfolio. International exposure is therefore most useful when introduced through a disciplined process that links investor objectives, product research, risk assessment and portfolio monitoring. For Indian investors, the appropriate conclusion is not that global investments should replace domestic assets, but that carefully selected international exposure through suitable channels such as GIFT City may complement domestic portfolios and improve the breadth of available investment opportunities.

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