



SEBI's Mutual Fund Reforms

A significant overhaul of mutual fund categorisation and rationalisation rules in India to enhance clarity and investor protection.

Discontinuation of Solution-Oriented Funds



Children's Funds Discontinued

This category is no longer available for new subscriptions. Existing schemes will be merged with similar profiles.



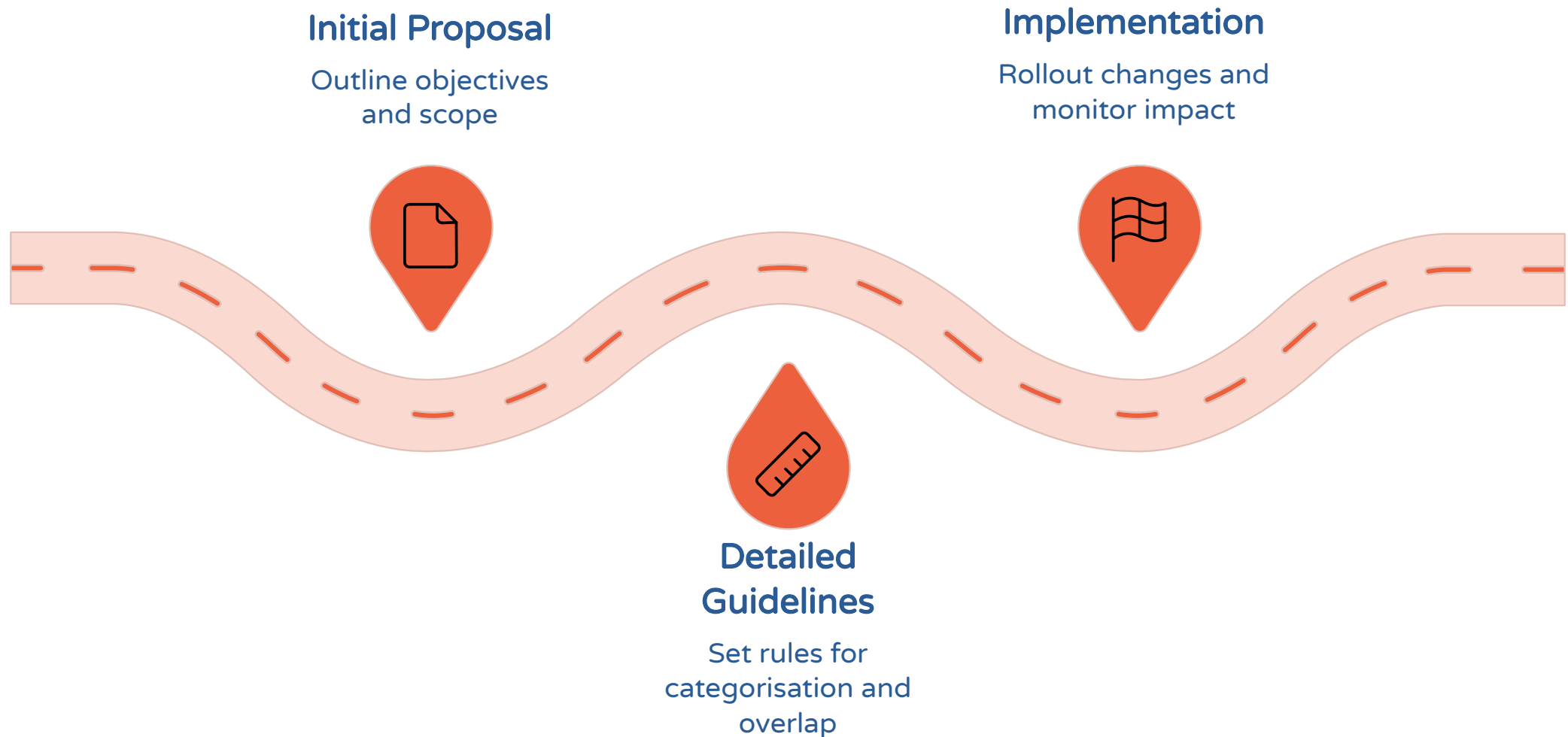
Retirement Funds Discontinued

New subscriptions are halted immediately. Existing funds will be aligned with other suitable schemes.

As of January 31, 2026, there were 15 Children's Fund schemes and 29 Retirement Fund schemes. These changes aim to streamline offerings and prevent overlap.

Evolution of Fund Categorisation

SEBI's initiatives, starting July 2025, aimed to enhance clarity and introduce new schemes while addressing portfolio overlap. The focus was on allowing mutual funds flexibility in offering diverse solution-oriented categories.



The regulator initially proposed allowing diverse equity and debt mixes, along with investments in REITs and InvITs for solution-oriented funds.

Key Changes: New Categories & Alignment

Introduction of New Categories

The latest circular dated February 26, 2026, introduces categories like **Contra Funds** and **Sectoral Debt Funds**.

Goal-Based Life Cycle Funds

A significant addition for goal-oriented investing, offering predetermined maturity and glide paths.

Scheme Alignment & FoF Limits

Asset managers must align existing schemes within six months and adhere to new limits for Funds of Funds (FoFs).

These changes foster sharper product definition and disciplined alignment with stated objectives, ultimately strengthening investor confidence.

Equity Funds: Investment & Overlap Rules

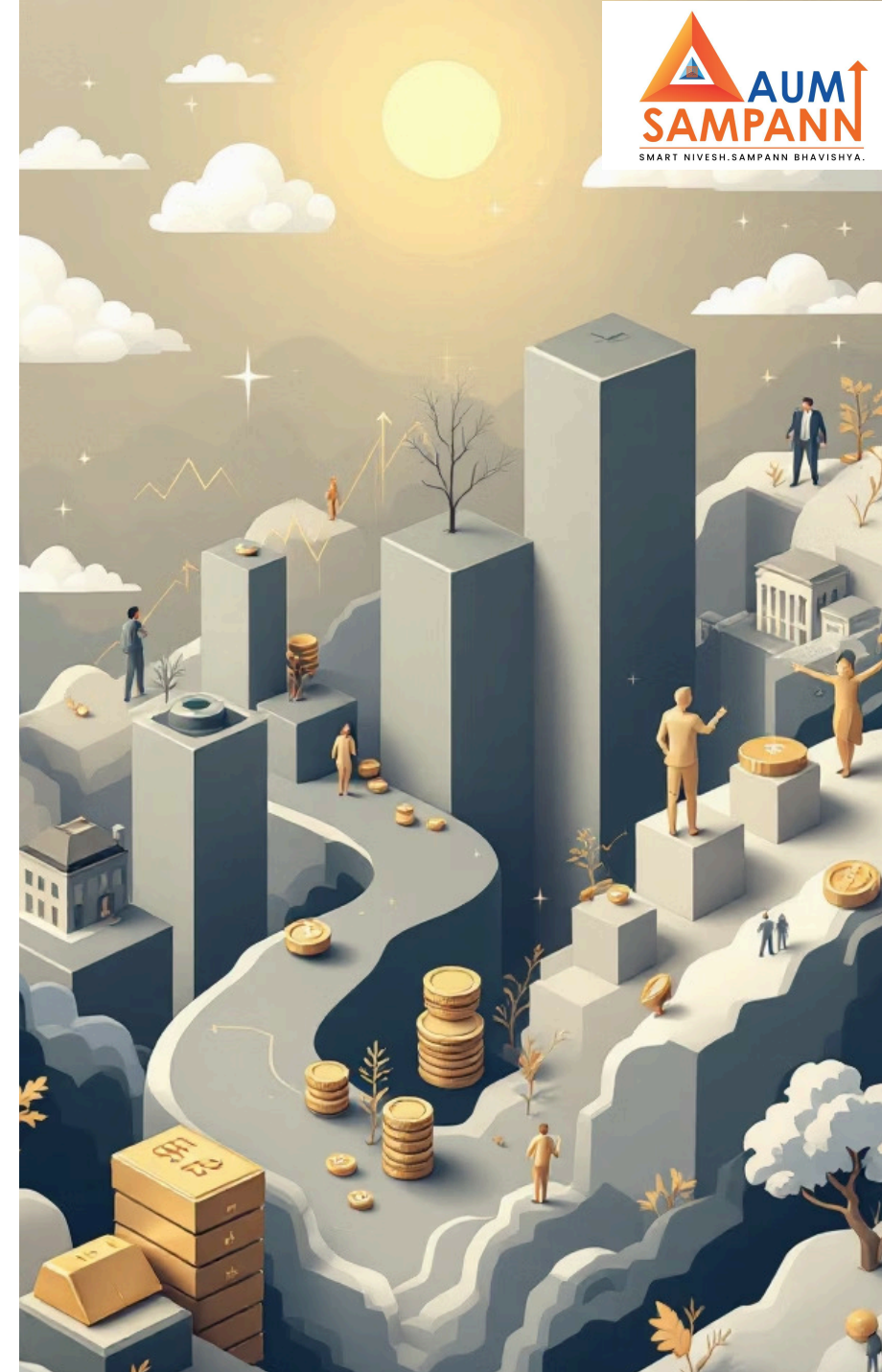
Residual Portion Investments

Mutual funds may invest residual portions in equity, money market instruments, liquid instruments, gold and silver instruments, and InvITs, subject to SEBI-mandated ceilings.

This "residual portion" refers to the part of a scheme's corpus not invested in its primary asset classes.

Portfolio Overlap Constraints

- **Value & Contra Funds:** Portfolio overlap between these two schemes must not exceed 50%.
- **Sectoral/Thematic Equity Funds:** No more than 50% overlap with other equity schemes (excluding large-cap schemes).
- **Re-alignment Timeline:** Funds must realign excess overlap by 35% in year one, an additional 35% in year two, and the remaining 30% in year three.



Debt Funds: Duration Flexibility & Sectoral Guidelines

For medium-term and medium-to-long-term debt funds, scheme characteristics remain consistent under normal circumstances.

However, fund managers can reduce portfolio duration up to one year to mitigate anticipated adverse interest rate movements, always in the interest of investors.



Reasons for reducing portfolio duration below specified floors (3 and 4 years) must be recorded, justified, and reviewed by Trustees, with reports submitted to SEBI.

Sectoral debt schemes can only be offered if there's sufficient investment-grade paper available in the targeted sectors.

Hybrid Funds & Other Categories

Hybrid category schemes allow investment of residual portions in InvITs (except arbitrage funds), ETCDs, Gold ETFs, and Silver ETFs, adhering to regulatory ceilings.

InvITs Expansion

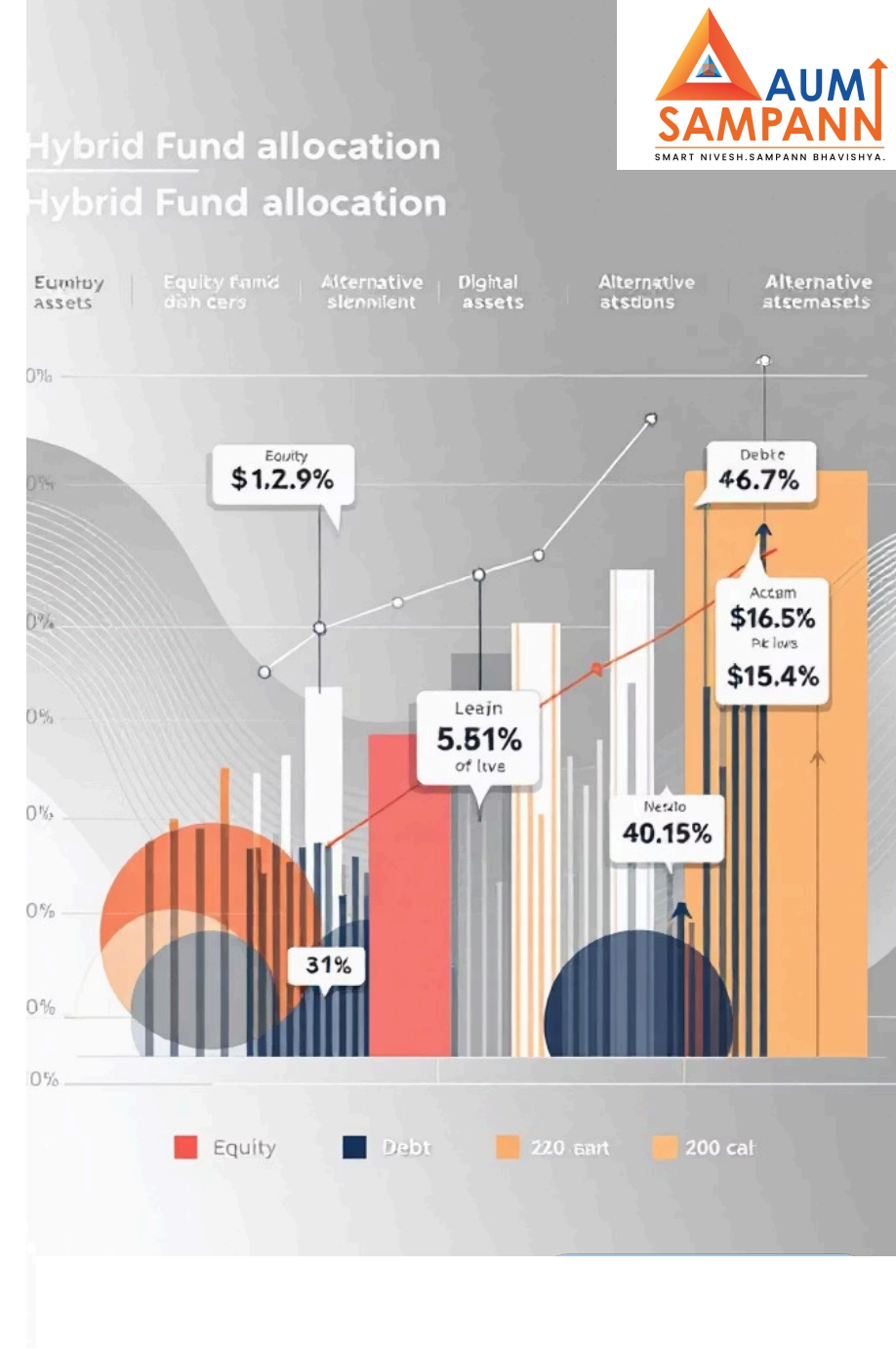
Increased flexibility for debt and hybrid funds to invest in Infrastructure Investment Trusts.

ETCDs Inclusion

Commodity derivatives are now permitted for hybrid funds.

Gold & Silver ETFs

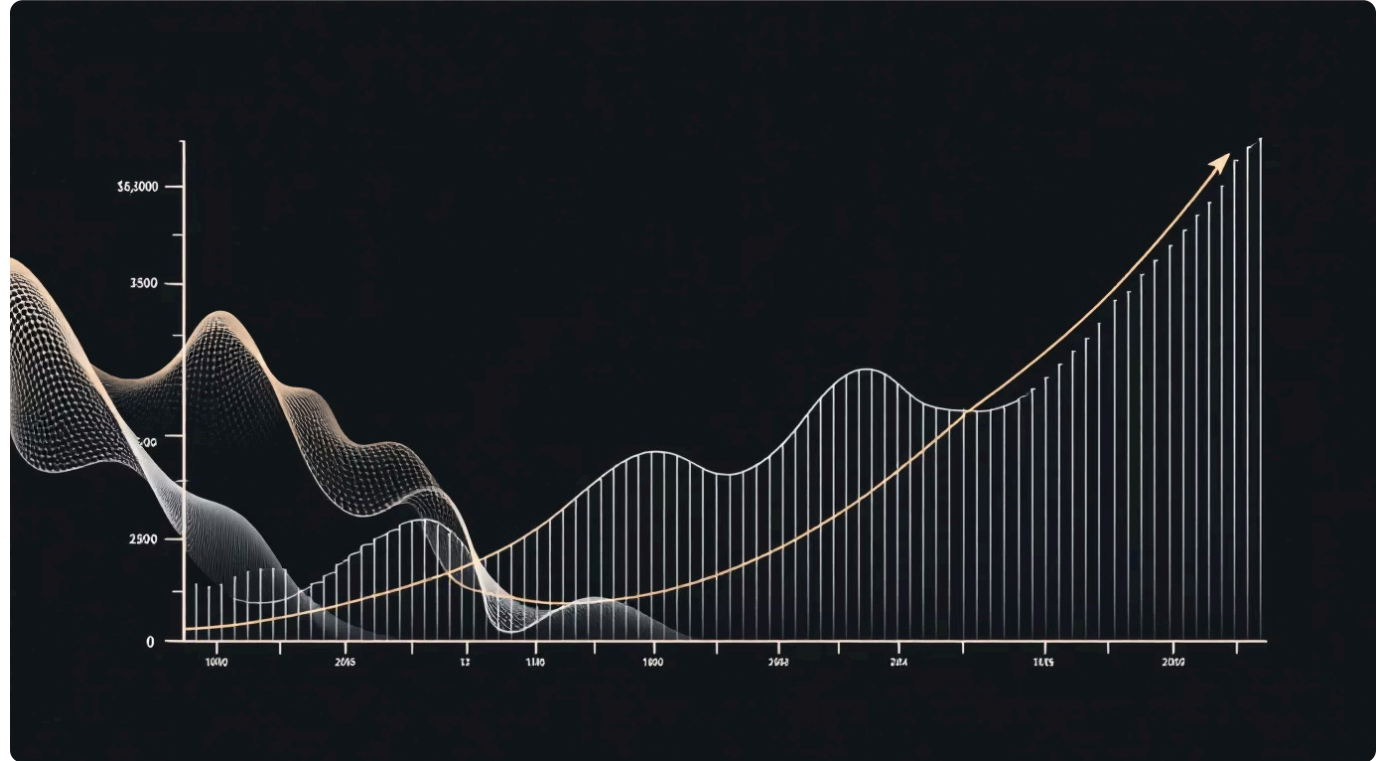
Expanded options for exposure to precious metals in hybrid portfolios.



Life Cycle Funds: Goal-Based Investing

Life Cycle Funds are open-ended, designed for goal-based investing with predetermined maturities and glide paths across asset classes (Equity, Debt, InvITs, ETCDs, Gold & Silver ETF).

- Minimum tenure: 5 years.
- Maximum tenure: 30 years.
- Tenures in multiples of 5 years.
- Maximum of 6 active funds per Mutual Fund for subscription at any time.



Funds nearing maturity (less than 1 year) may merge with the nearest maturity Life Cycle Fund with unitholder consent. For tenures less than 5 years, they can take up to 50% equity arbitrage exposure.

Life Cycle Funds: Exit Loads & Naming

Exit Load Structure

To promote financial discipline, a tiered exit load applies:

- 3% within the first year of investment.
- 2% within the first two years.
- 1% within the first three years.

Benchmark & Nomenclature

Life Cycle Funds will adhere to the benchmark framework prescribed for Multi Asset Allocation Funds.

Scheme names must reflect their category and include the maturity date for easy identification (e.g., **Life Cycle Fund 2055**).

Words emphasizing returns are prohibited in scheme names to maintain "true to label" integrity.

Transparency and Investor Confidence

Uniform Scheme Naming

Names must match the scheme category for clarity and consistency across all Mutual Funds, ensuring schemes remain "true to label."

Portfolio Overlap Disclosure

Mutual Funds must disclose category-wise portfolio overlap levels monthly on their websites for investor communication.

FoF Grandfathering

Existing Funds of Funds (FoFs) exceeding new limits will be grandfathered, allowing a transition period.

These reforms lead to sharper product definitions and disciplined alignment with stated objectives, strengthening investor confidence and promoting responsible portfolio construction across the Indian industry.