

DRAFT CIRCULAR FOR PUBLIC COMMENTS

Categorization and Rationalization of Mutual Fund Schemes

1. OBJECTIVE:

- 1.1. To solicit comments/ views/ suggestions from the public on the draft circular titled "*Categorization and Rationalization of Mutual Fund Schemes*" placed at **Annexure - I**.

2. BACKGROUND

- 2.1. SEBI vide circular dated October 06, 2017 read with circular no. SEBI/HO/IMD/DF3/CIR/P/2020/228 dated November 06, 2020 on '*Categorization and Rationalization of Mutual Fund Schemes*' (Categorization circular) standardized the scheme categories and characteristics to bring uniformity, improve comparability, and enhance investor understanding.
- 2.2. Since then, the mutual fund industry has grown significantly, both in terms of AUM and investor participation. This surge has been accompanied by evolving investor preferences, diversification of asset allocation strategies, and the emergence of new investment avenues such as REITs/InvITs.
- 2.3. In view of these developments and based on representations received from the industry and AMFI, a need was felt to review the Categorization circular to allow flexibility for product innovation while maintaining investor protection and scheme clarity.
- 2.4. Further, in order to ensure compliance with the categorization circular, SEBI checks on possible overlap amongst the portfolios of various schemes. It was noted that in case of some schemes, there was a significant overlap of portfolios. It was therefore felt necessary to introduce clear limits to the industry to avoid schemes with similar portfolios.
- 2.5. The circular has accordingly been revised to improve clarity, introduce new schemes and to address the issue of overlap in portfolios of schemes. This consultation paper seeks

suggestions of the public on the proposals mentioned in the draft circular placed at **Annexure - I** with respect to review of Categorisation circular.

3. PUBLIC COMMENTS:

3.1. Public comments are invited on the annexed draft circular. The comments/ suggestions should be submitted latest by **August 08, 2025**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

3.2. The instructions to submit comments on the consultation paper are as under:

1. Before initiating the process, please read the instructions given on top left of the web form as "Instructions".
2. Select the consultation paper you want to comment upon from the dropdown under the tab – "Consultation Paper" after entering the requisite information in the form.
3. All fields in the form are mandatory.
4. Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.
5. If you represent any organization other than the types mentioned under dropdown in "Organization Type", please select "Others" and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select "Others" and mention "Not Applicable" in the text box.
6. There will be a dropdown of Proposals in the form. Please select the proposals one-by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.
7. If you want to provide your comments for the selected proposal, please select "Yes" from the dropdown under "**Do you want to comment on the proposal**" and use the text boxes provided for the same.

8. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.
9. If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.
10. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.
11. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper .

- 3.3. In case of any technical issue in submitting your comment through the web based public comments form, you may contact the following through email with the subject: “**Categorization and Rationalization of Mutual Fund Schemes**”
- a) Ms. Anupma Chadha, GM (anupmac@sebi.gov.in)
 - b) Mr. Jubin Mehta, DGM (jubinm@sebi.gov.in)
 - c) Mr. Ashish Saini, AM (ashishsaini@sebi.gov.in)

Issued on: July 18, 2025

DRAFT CIRCULAR

SEBI/HO/IMD/IMD-RAC/P/CIR/2025/

XXXX, 2025

To,

All Mutual Funds

All Asset Management Companies (AMCs)

All Trustee Companies/ Board of Trustees of Mutual Funds

Association of Mutual Funds in India (AMFI)

Madam/ Sir,

Subject: Categorization and Rationalization of Mutual Fund Schemes

1. SEBI vide circular no. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 06, 2017, read with circular no. SEBI/HO/IMD/DF3/CIR/P/2020/228 dated November 06, 2020 issued guidelines regarding categorization and rationalization of Mutual Fund Schemes. The said circulars were consolidated as clause 2.6 of the chapter 2 of Master Circular for Mutual Funds dated June 27, 2024 (hereinafter referred as “Master Circular”).
2. To accommodate the continuously evolving landscape of mutual fund investments and the emergence of opportunities across various asset classes, Clause 2.6 of Chapter 2 of the Master Circular stands modified as below:

2.6 Categories of Schemes, Scheme Characteristics and Type of Scheme (Uniform Description of Schemes):

2.6.1 The Schemes would be broadly classified in the following groups:

- A. Equity Scheme: *Mutual Fund scheme predominantly investing in equity and equity related instruments;*

B. Debt Scheme: *Mutual Fund scheme predominantly investing in debt and debt related instruments;*

C. Hybrid Scheme: *Mutual Fund scheme investing in a mix of asset class i.e. equity, debt, gold -silver related instruments and REITs and InvITs.*

D. Solution Oriented Schemes: *Mutual Fund schemes intending to help investors achieve specific goals.*

E. Other Schemes

2.6.2 For easy identification by investors, in order to bring uniformity in names of schemes for a particular category across Mutual Funds and to ensure that schemes remain “true-to-label”, the scheme name shall be the same as the scheme category.

2.6.3 The details of the scheme categories under each of the aforesaid groups along with their characteristics and uniform description are as under:

A. Equity Schemes:

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Multi Cap Fund	<p>Minimum investment in equity & equity related instruments - 75% of total assets in the following manner:</p> <p>a) Minimum investment in equity & equity related instruments of large cap companies - 25% of total assets;</p> <p>b) Minimum investment in equity & equity related instruments of mid cap companies - 25% of total assets;</p> <p>c) Minimum investment in equity & equity related instruments of small cap companies - 25% of total assets</p>	An open ended equity scheme investing across large cap, mid cap, small cap stocks

2	Large Cap Fund	Minimum investment in equity & equity related instruments of large cap companies- 80% of total assets	An open ended equity scheme predominantly investing in large cap stocks
3	Large & Mid Cap Fund	Minimum investment in equity & equity related instruments of large cap companies- 35% of total assets Minimum investment in equity & equity related instruments of mid cap stocks- 35% of total assets	An open ended equity scheme investing in both large cap and mid cap stocks.
4	Mid Cap Fund	Minimum investment in equity & equity related instruments of mid cap companies - 65% of total assets	An open ended equity scheme predominantly investing in mid cap stocks
5	Small cap Fund	Minimum investment in equity & equity related instruments of small cap companies- 65% of total assets	An open ended equity scheme predominantly investing in small cap stocks
6	Dividend Yield Fund	Scheme should predominantly invest in dividend yielding stocks. Minimum investment in equity- 65% of total assets	An open ended equity scheme predominantly investing in dividend yielding stocks
7	Value Fund*	Scheme should follow a value investment strategy. Minimum investment in equity & equity related instruments - 65% of total assets	An open ended equity scheme following a value investment strategy
8	Contra Fund*	Scheme should follow a contrarian investment strategy. Minimum investment in equity & equity related instruments - 65% of total assets	An open ended equity scheme following contrarian investment strategy
8	Focused Fund	A scheme focused on the number of stocks (maximum 30) Minimum investment in equity & equity related instruments - 65% of total assets	An open ended equity scheme investing in maximum 30 stocks (mention where the scheme intends to focus, viz., multi cap, large cap, mid cap, small cap)

9	Sectoral/ Thematic Fund	Minimum investment in equity & equity related instruments of a particular sector/ particular theme- 80% of total assets. ^For any scheme offering in this category schemes, Mutual Funds shall ensure that no more than 50% of the schemes portfolios would overlap with other equity schemes in sectoral/thematic equity schemes categories except for large cap scheme.	An open ended equity scheme investing in __ sector (mention the sector)/ An open ended equity scheme following __ theme (mention the theme)
10	ELSS – Tax Saver Fund	Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance)	An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit
11	Flexi Cap Fund	Minimum Investment in equity & equity related instruments – 65% of total assets	An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks

* Mutual Funds shall be permitted to offer both Value and Contra funds subject to the condition that no more than 50% of the schemes portfolios shall overlap at any point in time.

The overlap condition shall be monitored at the time of NFO deployment and subsequently on a semi-annual basis using month-end portfolios. In case of more than permitted overlap, AMC shall rebalance the portfolios within 30 business days. An extension of up to an additional 30 business days may be obtained from the Investment Committee (IC) of the AMC. Reasons for granting the additional business days should be properly recorded and maintained. Endeavor shall be made to ensure that scheme portfolio overlapping remain within 50% at all time.

If the deviation persists beyond this period, investors of both the schemes shall be given an exit option without any exit load.

^Existing thematic /sectoral funds shall ensure compliance w.r.t portfolio overlap within one year from the date of this circular.

Mutual Funds shall be permitted to invest residual portion in equity, debt (including money market instruments), gold & silver (instruments as permitted by SEBI), REITs and InvITs, subject to the ceilings laid out in MF regulations w.r.t the respective asset class, in the equity category schemes.

Note: 'Residual portion' refers to the remaining part of the scheme's assets that is not invested in the primary asset class as defined by the scheme's category. It provides flexibility to the fund manager to deploy this portion in other permissible asset classes, to manage liquidity and risk.

Proposal 1:

Should Mutual Funds be allowed to invest the residual portion of their equity category schemes in a diversified mix of asset classes such as debt (including money market instruments), gold, silver (as permitted by SEBI), REITs, and InvITs—subject to regulatory limits for each asset class?

Proposal 2:

Should Mutual Funds be allowed to offer both Value and Contra funds, provided that the portfolio overlap between the two does not exceed 50%?

Proposal 3:

Is maximum overlap of 50% amongst schemes within the sectoral/thematic and equity categories (excluding large cap schemes), sufficient in order to ensure scheme differentiation? If not, please indicate the suitable % of maximum overlap permissible along with suitable rationale.

Proposal 4:

Should the overlap condition be monitored at the time of NFO deployment and subsequently on a semi-annual basis using month-end portfolios?

B. Debt Schemes

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Overnight Fund**	Investment in overnight securities having maturity of 1 day***	An open ended debt scheme investing in overnight securities
2	Liquid Fund \$**	Investment in Debt and money market securities with maturity of upto 91 days only	An open ended liquid scheme
3	Ultra Short Term Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months	An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months
4	Ultra Short to Short Term Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months	An open ended debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months
5	Money Market Fund	Investment in Money Market instruments having maturity up to 1 year	An open ended debt scheme investing in money market instruments
6	Short Term Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years	An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years
7	Medium Term Fund ^^	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 4 years	An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years

8	Medium to Long Term Fund ^^	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 to 7 years. Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years	An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 4 years to 7 years
9	Long Term Fund	Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years	An open ended debt scheme investing in instruments such that the Macaulay duration of the portfolio is greater than 7 years
10	All Seasons Bond Fund	Investment across duration	An open ended dynamic debt scheme investing across duration.
11	Corporate Bond Fund	Minimum investment in corporate bonds - 80% of total assets (only in AA+ and above rated corporate bonds) @	An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds
12	Credit Risk Fund ^	Minimum investment in corporate bonds - 65% of total assets (only in AA* and below rated corporate bonds) @	An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds)
13	Banking and PSU Debt Fund	Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds - 80% of total assets @	An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds
14	Gilt Fund	Minimum investment in G-secs- 80% of total assets (across maturity)	An open ended debt scheme investing in government securities across maturity
15	10-year Constant	Minimum investment in G-secs- 80% of total assets such that the Macaulay	An open ended debt scheme investing in government

	Maturity Gilt Fund	duration of the portfolio is equal to 10 years	securities having a constant maturity of 10 years
16	Floating Interests Rate Fund	Minimum investment in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives)- 65% of total assets @	An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives)
17	Sectoral Fund \$ [#]	Minimum investment in debt & debt related instruments of a particular sector across duration (only in AA+ and above rated corporate bonds)- 80% of total assets	An open ended debt scheme investing in __ sector (mention the sector)

***Provision as mentioned at Paragraph 8.4.5 of Master Circular shall be followed for Uniform cut-off timings for applicability of Net Asset Value in respect of Liquid Fund and Overnight Fund.*

**** Overnight funds can deploy, not exceeding, 5% of the net assets of the scheme in G-secs and/or T-bills with a residual maturity of upto 30 days for the purpose of placing the same as margin and collateral for certain transactions.*

\$ All provisions mentioned at Paragraph 1.13, 8.4.2.1.c, 12.6 of Master Circular in respect of liquid schemes shall be applicable.

Concept of Macaulay's Duration shall be explained in the scheme information document.

^ Words/ phrases that highlight/ emphasize only the return aspect of the scheme shall not be used in the name of the scheme (for instance Credit Opportunities Fund, High Yield Fund, Credit Advantage etc.)

** excludes AA+ rated corporate bonds*

^^ With respect to the Medium Term Fund and Medium to Long Term Fund, the characteristics of the scheme shall remain the same under normal circumstances. However, the fund manager, in the interest of investors, may reduce the portfolio duration of the aforementioned schemes up to one year, in case he has a view on interest rate movements in light of anticipated adverse situation. The AMC shall be required to mention its asset allocation under such adverse situation in its offer documents.

Whenever the portfolio duration is reduced below the specified floors of 3 years and 4 years in respect of Medium Term Fund and Medium to Long Term Fund respectively, the AMC shall be required to record the reasons for the same with adequate justification and maintain the same for inspection. The written justifications shall be placed before the Trustees in the subsequent Trustee meeting. Further, the Trustees shall also review the portfolio and report the same in their Half Yearly Trustee Report to SEBI.

It is clarified that Macaulay duration shall be mentioned at portfolio level.

@ For asset allocation limits considering minimum liquid assets requirement, refer Paragraph 4.6 of Master Circular. For exclusion of investment in units of CDMDF from asset allocation limits, please refer Paragraph 2.10 of Master Circular.

\$# Mutual Funds shall ensure that no more than 60% portfolio in sectoral category shall overlap with any other schemes in debt schemes category. Endeavor shall be made by Mutual Funds to ensure that there is sufficient availability of investment grade paper in market for the sectors in which sectoral debt fund is offered by them.

Sectoral exposure limits as outlined in clause 12.9.1 of the Master Circular shall not be applicable to the sectoral debt funds.

Note- Mutual Funds may invest in REITs and InvITs in all debt category schemes except for the schemes with shorter duration (e.g. Overnight Fund, Liquid Fund, Ultra-Short Duration Fund, Low Duration Fund, and Money Market Fund) subject to the ceilings laid out in MF regulations w.r.t the asset. For existing schemes correction in asset allocation table to align with this circular shall not be considered as fundamental attribute change.

Proposal 5:

Should the name of the debt category scheme be changed from "Duration" to "Term" to provide better nomenclature that enhances investor clarity?

Proposal 6:

Should the nomenclature of the "Low Duration Fund" be changed to " Ultra Short to Short Term Fund " to better reflect the investment objective and improving investor clarity?

Proposal 7:

Should mutual funds be allowed to launch sectoral debt fund subject to ensuring that no more than 60% of the portfolio in a sectoral debt scheme overlaps with any other sectoral debt scheme/debt category scheme, while also ensuring sufficient availability of investment-grade paper in the chosen sectors, and exempting such schemes from the sectoral exposure limits under Clause 12.9.1 of the Master Circular?

Proposal 8:

Should Mutual Funds be allowed to invest the residual portion of their debt category schemes in REITs and InvITs except for the schemes with shorter duration (e.g. Overnight Fund, Liquid Fund, Ultra-Short Duration Fund, Low Duration Fund, and Money Market Fund) subject to regulatory limits for this asset class?

Proposal 9:

Should the name of the debt category scheme include duration of the fund such as Overnight Fund (1 Day) or Medium Term Fund (3 to 4 years)?

C. Hybrid Schemes

Sr. No.	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Conservative Hybrid Fund	Investment in equity & equity related instruments- between 10% and 25% of total assets; Investment in Debt instruments- between 75% and 90% of total assets	An open ended hybrid scheme investing predominantly in debt instruments
2	Balanced Hybrid Fund	Equity & Equity related instruments - between 40% and 60% of total assets;	An open ended balanced scheme investing only in equity and debt instruments. No Arbitrage is permitted in this scheme.

		Debt instruments - between 40% and 60% of total assets No Arbitrage would be permitted in this scheme	
3	Aggressive Hybrid Fund	Equity & Equity related instruments- between 65% and 80% of total assets; Debt instruments- between 20% 35% of total assets	An open ended hybrid scheme investing predominantly in equity and equity related instruments
4	Dynamic Asset Allocation Fund	Investment in equity/ debt that is managed dynamically	An open ended dynamic asset allocation fund investing in debt and equity instruments only
6	Multi Asset Allocation ##	Invests in at least three asset classes with a minimum allocation of at least 10% each in all three asset classes	An open ended scheme investing in , __ , __ (mention the three different asset classes)
7	Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments - 65% of total assets. Asset allocation in case of defensive consideration shall be stated in the SID. Exposure in debt instruments shall be limited to government securities with maturity less than 1 year as well as repo of government bonds only.	An open ended scheme investing in arbitrage opportunities.
8	Equity Savings	Minimum investment in equity & equity related instruments- 65% of total assets.	An open ended scheme investing in equity, arbitrage and debt

		<p>Net equity exposure- 15%-40% of total assets</p> <p>Minimum Investment in debt- 10% of total assets.</p> <p>Maximum Arbitrage exposure has to be stated in the SID.</p> <p>Minimum hedged & unhedged exposure to be stated in the SID.</p> <p>Asset Allocation under defensive considerations may also be stated in the Offer Document</p>	
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Foreign securities shall not be treated as a separate asset class

Note: Mutual Funds may invest residual portion in REITs and InvITs except for Dynamic Asset Allocation and Arbitrage Fund, subject to the ceilings laid out in MF regulations w.r.t the respective asset class, in the hybrid category schemes.

Proposal 10:

Should Arbitrage Fund category scheme be allowed to take exposure in debt instruments only in government securities with a maturity of less than one year and in repos backed by government bonds?

Proposal 11:

Should the net equity exposure and arbitrage exposure be mandated between 15%-40% in the equity saving scheme category?

Proposal 12:

Should Mutual Funds be allowed to invest the residual portion of their hybrid category schemes in REITs and InvITs except for Dynamic Asset Allocation and Arbitrage Fund subject to regulatory limits for this asset class?

D. Solution Oriented Schemes:

Sr. No	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Retirement Fund - Equity Oriented	Minimum investment in equity & equity related instruments - 80% of total assets	An open ended retirement solution oriented scheme investing predominantly in equity instruments and having a lock-in of 5 years or till retirement age (60)(whichever is earlier)
2	Retirement Fund - Hybrid	Investment in equity & equity related instruments – 40%-60% of total assets Investment in debt & debt related instruments - 40%-60% of total assets Investment in gold and silver related instruments (as permitted by SEBI) - between 0%-10% of total assets	An open ended retirement solution oriented balanced scheme investing in instruments including equity and debt and having a lock-in of 5 years or till retirement age (60) (whichever is earlier)
3	Retirement Fund - Debt Oriented	Investment in equity & equity related instruments – upto 25% of total assets Investment in debt & debt related instruments – minimum 65% of total assets	An open ended retirement solution oriented scheme investing predominantly in debt instruments and having a lock-in of 5 years or till retirement age (60) (whichever is earlier)

		Investment in gold and silver related instruments (as permitted by SEBI) - between 10%- 25% of total assets	
4	Children's Fund - Equity Oriented	Minimum investment in equity & equity related instruments - 80% of total assets	An open ended Children's solution oriented scheme investing predominantly in equity instruments and having a lock-in of 5 years or till the child achieves 18 years of age (whichever is earlier).
5	Children's Fund - Hybrid	Investment in equity & equity related instruments – 40%-60% of total assets Investment in debt & debt related instruments - 40%-60% of total assets Investment in gold and silver related instruments (as permitted by SEBI) - between 0%-10% of total assets	An open ended Children's solution oriented balanced scheme investing in instruments including equity and debt and having a lock-in of 5 years or till the child achieves 18 years of age (whichever is earlier).
6	Children's Fund - Debt Oriented	Investment in equity & equity related instruments – upto 25% of total assets Investment in debt & debt related instruments – minimum 65% of total assets Investment in gold and silver related instruments (as permitted by SEBI) - between 10%- 25% of total assets	An open ended Children's solution oriented scheme investing predominantly in debt instruments and having a lock-in of 5 years or till the child achieves 18 years of age (whichever is earlier).

Note: Mutual Funds may invest residual portion in equity, debt (including money market instruments), gold & silver (instruments as permitted by SEBI), REITs and InvITs, subject to the ceilings laid out in MF regulations w.r.t the respective asset class, in the solutions category schemes.

Existing plans in such category shall be treated as separate scheme.

Proposal 13:

Should Mutual Funds be allowed to offer different type of schemes in the solution oriented category offering a different mix of equity and debt portion? Is the asset allocation stated above appropriate for the solution oriented category schemes?

Proposal 14:

Should Mutual Funds be allowed to invest the residual portion of their solution category schemes in REITs and InvITs except for the Retirement Fund – Hybrid and Children’s Fund - Hybrid, subject to regulatory limits for this asset class?

E. Other Schemes:

Sr. No	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Index Funds/ETFs	Minimum investment in securities of a particular index (which is being replicated/ tracked)- 95% of total assets	An open ended scheme replicating/ tracking _ index
2	FoFs (Overseas/ Domestic)	Minimum investment in the underlying fund- 95% of total assets	An open ended fund of fund scheme investing in fund (mention the underlying fund)
3	Life Cycle FoFs	Minimum investment in the underlying fund- 95% of total assets	A solution oriented open ended target dated fund of funds scheme with a lock in period of 5 years

Index Funds/ ETFs

It is informed that to address risk of scheme proliferation in this category, a framework in consultation with AMFI will be issued separately.

Life Cycle Fund of Funds (FOF)

A solution oriented open ended fund of funds with a target date investing in underlying scheme as per the following structure:

Target Date	Tenure	Investment in Equity Funds	Investment in Hybrid Funds	Investment in Debt Funds
Retirement Lifecycle FOF 2035	10 Years	First 4 Years	Next 3 Years	Last 3 Years
Retirement Lifecycle FOF 2040	15 Years	First 9 Years	Next 3 Years	Last 3 Years
Retirement Lifecycle FOF 2045	20 Years	First 14 Years	Next 3 Years	Last 3 Years
Retirement Lifecycle FOF 2050	25 Years	First 19 Years	Next 3 Years	Last 3 Years
Retirement Lifecycle FOF 2055	30 Years	First 24 Years	Next 3 Years	Last 3 Years

Life Cycle FoFs may invest in underlying debt category schemes except for All Seasons Bond Fund and in all hybrid category schemes except for Aggressive Hybrid Fund, Dynamic Asset Allocation, Multi Asset Allocation Fund.

Mutual Fund may launch Life Cycle FoF every 5 years with a maximum tenure of 30 years. Additionally, as each fund reaches its target date, fund may be merged with nearest maturity Life Cycle FoF with positive consent from the unitholders.

Proposal 15:

Should Mutual Funds be allowed to offer solutions oriented life cycle fund of funds with a target date in the structure as stated in the draft circular?

Proposal 16:

Should Mutual Funds be allowed to offer solution oriented life cycle fund of funds, with a lock in, for other specific goals such as housing, marriage etc? If yes, provide specific goals with rationale.

Proposal 17:

Should Mutual Funds be allowed to offer solutions oriented life cycle fund of funds with different lock in period such as 3 years, 5 years or 10 years? If yes, provide lock in period with rationale.

2.6.4 As per the above, the 'type of scheme' (mentioned below the scheme name in the offer documents/ advertisements/ marketing material/etc.) would be the type of scheme (given in the third column of the tables) as applicable to each category of scheme.

2.6.5 In case of Solution oriented schemes, there will be specified period of lock in as stated in the above tables.

However, the said lock- in period would not be applicable to any existing investment by an investor, registered SIPs and incoming STPs in the existing solution oriented schemes as on the date on which such scheme is getting realigned with these provisions.

2.6.6 The investment objective, investment strategy and benchmark of each scheme shall be suitably modified (wherever applicable) to bring it in line with the categories of schemes listed above.

2.6.7 **Additional Scheme:** AMC on its discretion may launch an additional scheme in the existing scheme categories listed above subject to the following:

2.6.7.1 Existing scheme in the category should have completed more than 5 years.

2.6.7.2 Existing scheme shall have an AUM of more than Rs 50,000 crore.

2.6.7.3 Additional scheme shall have similar investment objective, investment strategies and asset allocation, broad features as the existing scheme. A separate scheme information document shall be released by the AMC.

2.6.7.4 Upon the launch of additional scheme, existing scheme shall stop accepting subscriptions.

2.6.7.5 AMC may appoint a separate fund manager for the additional scheme

- 2.6.7.6 Additional scheme shall follow same disclosures related to performance, expense ratio and other regulatory requirement as the existing scheme.
- 2.6.7.7 The total expense ratio of the additional scheme shall be capped at the TER as last disclosed by the existing scheme on the date of NFO of additional scheme.
- 2.6.7.8 Additional scheme shall use the similar nomenclature as existing scheme in order to maintain true to label status and avoid confusion in the mind of the investors e.g. Large Cap Fund (existing scheme or Series 1) and Large Cap Fund (series 2 or additional series)
- 2.6.7.9 AMC may merge an existing scheme with an additional scheme if there is a significant decline in the AUM of the existing scheme, making it operationally unfeasible or necessitating transitional adjustments for effective management. AMC shall ensure that no more than 2 scheme exists in the same category at any point in time.

Proposal 18:

Should Mutual Funds be allowed to offer additional scheme in the existing scheme category such to conditions as specified in the clause 2.6.6 of the draft circular?

Proposal 19:

Should the term 'fund' in the scheme name be changed to 'scheme' for e.g. Large Cap Scheme instead of Large Cap Fund?

Proposal 20:

Any other suggestion may be provided with appropriate rationale.

3. This Circular shall come into force with effect from the date of this Circular.
4. Existing schemes shall realign with circular within 6 months from the date of issuance of the circular.
5. This Circular is issued in exercise of the powers conferred by Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Chapter VI-C of the SEBI (Mutual Funds) Regulations 1996 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
6. This Circular is available at www.sebi.gov.in under the link “Legal ->Circulars”.

Yours sincerely,

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