



**CIRCULAR**

SEBI/HO/IMD/DF3/CIR/P/2017/114

October 6, 2017

**All Mutual Funds/Asset Management Companies (AMCs)/  
Trustee Companies/Boards of Trustees of Mutual Funds/ AMFI**

Sir/ Madam,

**Subject: Categorization and Rationalization of Mutual Fund Schemes**

1. It is desirable that different schemes launched by a Mutual Fund are clearly distinct in terms of asset allocation, investment strategy etc. Further, there is a need to bring in uniformity in the characteristics of similar type of schemes launched by different Mutual Funds. This would ensure that an investor of Mutual Funds is able to evaluate the different options available, before taking an informed decision to invest in a scheme.
2. In order to bring the desired uniformity in the practice, across Mutual Funds and to standardize the scheme categories and characteristics of each category, the issue was discussed in Mutual Fund Advisory Committee (MFAC). Accordingly, it has been decided to categorize the MF schemes as given below:

**I. Categories of Schemes, Scheme Characteristics and Type of Scheme (Uniform Description of Schemes):**

3. The Schemes would be broadly classified in the following groups:
  - a. Equity Schemes
  - b. Debt Schemes
  - c. Hybrid Schemes
  - d. Solution Oriented Schemes
  - e. Other Schemes

The details of the scheme categories under each of the aforesaid groups along with their characteristics and uniform description are given in the Annexure.

4. As per the annexure, the existing 'type of scheme' (presently mentioned below the scheme name in the offer documents/ advertisements/ marketing material/etc) would be replaced with the type of scheme (given in the third column of the tables in the Annexure) as applicable to each category of scheme. This will enhance the existing disclosure. Hence, for the purpose of alignment of the existing schemes with



the provisions of this circular, change in “*type of scheme*” alone, would not be considered as a change in fundamental attribute.

5. In case of Solution oriented schemes, there will be specified period of lock in as stated in the Annexure.

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 the provisions of this circular.

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.

## **II. Definition of Large Cap, Mid Cap and Small Cap:**

7. In order to ensure uniformity in respect of the investment universe for equity schemes, it has been decided to define large cap, mid cap and small cap as follows:

- a. Large Cap: 1<sup>st</sup> -100<sup>th</sup> company in terms of full market capitalization
- b. Mid Cap: 101<sup>st</sup> -250<sup>th</sup> company in terms of full market capitalization
- c. Small Cap: 251<sup>st</sup> company onwards in terms of full market capitalization

8. Mutual Funds would be required to adopt the list of stocks prepared by AMFI in this regard and AMFI would adhere to the following points while preparing the list:

- a. If a stock is listed on more than one recognized stock exchange, an average of full market capitalization of the stock on all such stock exchanges, will be computed;
- b. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.
- c. This list would be uploaded on the AMFI website and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be available on the AMFI website within 5 calendar days from the end of the 6 months period.

9. Subsequent to any updation in the list, Mutual Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of one month.

## **III. Process to be followed for categorization and rationalization of schemes:**

- a. Only one scheme per category would be permitted, *except*:
  - i. Index Funds/ ETFs replicating/ tracking different indices;
  - ii. Fund of Funds having different underlying schemes; and
  - iii. Sectoral/ thematic funds investing in different sectors/ themes
- b. Mutual Funds would be required to analyze each of their existing schemes in light of the list of categories stated herein and submit their proposals to SEBI after obtaining due approvals from their Trustees as early as possible but not later than 2 months from the date of this circular.



- c. The aforesaid proposals of the Mutual Funds would also include the proposed course of action (viz., winding up, merger, fundamental attribute change etc.) in respect of the existing similar schemes as well as those that are not in alignment to the categories stated herein.
- d. Subsequent to the observations issued by SEBI on the proposals, Mutual Funds would have to carry out the necessary changes in all respects within a maximum period of 3 months from the date of such observation.
- e. Where there is a merger of schemes/change of fundamental attribute(s) of a scheme (as laid down under SEBI Circular No. IIMARP/MF/CIR/01/294/98 dated February 4, 1998), the AMCs would be required to comply with Regulation 18 (15A) of SEBI (Mutual Funds Regulation, 1996).
- f. Mutual Funds are advised to strictly adhere to the scheme characteristics stated herein as well as to the spirit of this circular. Mutual Funds must ensure that the schemes so devised should not result in duplication/minor modifications of other schemes offered by them. The decision of SEBI in this regard shall be binding on all the mutual funds.

**IV. Applicability of this circular:**

- a. All existing open ended schemes of all Mutual Funds
- b. All such open ended schemes where SEBI has issued final observations but have not yet been launched.
- c. All open ended schemes in respect of which draft scheme documents have been filed with SEBI as on date
- d. All open ended schemes for which a mutual fund would file draft scheme document.

This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provision of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

**RAJESH GUJJAR**  
Deputy General Manager  
Tel no.: 022-26449232  
Email: [rajeshg@sebi.gov.in](mailto:rajeshg@sebi.gov.in)



Annexure:

**A. Equity Schemes:**

<b>Sr. No.</b>	<b>Category of Schemes</b>	<b>Scheme Characteristics</b>	<b>Type of scheme (uniform description of scheme)</b>
1	Multi Cap Fund	Minimum investment in equity & equity related instruments- 65% of total assets	Multi Cap Fund- 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	Large Cap Fund- 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	Large & Mid Cap Fund- 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	Mid Cap Fund- 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	Small Cap Fund- 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
	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	Minimum investment in equity & equity related instruments of a particular sector/ particular theme- 80% of total assets	An open ended equity scheme investing in __ sector (mention the sector)/ An open ended equity scheme following __ theme (mention the theme)
10	ELSS	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

\* Mutual Funds will be permitted to offer either Value fund or Contra fund.

#### **B. Debt Schemes**

<b>Sr. No.</b>	<b>Category of Schemes</b>	<b>Scheme Characteristics</b>	<b>Type of scheme (uniform description of scheme)</b>
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 Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months	An open ended ultra-short term debt scheme investing in instruments with Macaulay duration between 3 months and 6 months (please refer to page no.__)#
4	Low Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 months- 12 months	An open ended low duration debt scheme investing in instruments with Macaulay duration between 6 months and 12 months (please refer to page no.__)#
5	Money Market Fund	Investment in Money Market instruments having maturity upto 1 year	An open ended debt scheme investing in money market instruments
6	Short Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year – 3 years	An open ended short term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years (please refer to page no.__)#
7	Medium Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay	An open ended medium term debt scheme investing in instruments with Macaulay



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## Securities and Exchange Board of India

		duration of the portfolio is between 3 years – 4 years	duration between 3 years and 4 years (please refer to page no.__)#
8	Medium to Long Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 – 7 years	An open ended medium term debt scheme investing in instruments with Macaulay duration between 4 years and 7 years (please refer to page no.__)#
9	Long Duration 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 with Macaulay duration greater than 7 years (please refer to page no.__)#
10	Dynamic Bond	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 highest rated instruments)	An open ended debt scheme predominantly investing in highest rated corporate bonds
12	Credit Risk Fund^	Minimum investment in corporate bonds- 65% of total assets (investment in below highest rated instruments)	An open ended debt scheme investing in below highest rated corporate bonds
13	Banking and PSU Fund	Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions- 80% of total assets	An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions
14	Gilt Fund	Minimum investment in Gsecs- 80% of total assets (across maturity)	An open ended debt scheme investing in government securities across maturity
15	Gilt Fund with 10 year constant duration	Minimum investment in Gsecs- 80% of total assets such that the Macaulay duration of the portfolio is equal to 10 years	An open ended debt scheme investing in government securities having a constant maturity of 10 years
16	Floater Fund	Minimum investment in floating rate instruments- 65% of total assets	An open ended debt scheme predominantly investing in floating rate instruments

\*\*Provisions of SEBI Circular No SEBI/IMD/DF/19/2010 dated November 26, 2010 shall be followed for Uniform cut-off timings for applicability of Net Asset Value in respect of Liquid Fund and Overnight Fund.

\$ All provisions mentioned in SEBI circular SEBI/IMD/CIR No.13/150975/09 dated January 19, 2009 in respect of liquid schemes shall be applicable



# Please refer to the page number of the Offer Document on which the concept of Macaulay's Duration has been explained

^ 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.)

### 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; Debt instruments- between 40% and 60% of total assets No Arbitrage would be permitted in this scheme	An open ended balanced scheme investing in equity and debt instruments
	Aggressive Hybrid Fund @	Equity & Equity related instruments- between 65% and 80% of total assets; Debt instruments- between 20% and 35% of total assets	An open ended hybrid scheme investing predominantly in equity and equity related instruments
3	Dynamic Asset Allocation or Balanced Advantage	Investment in equity/ debt that is managed dynamically	An open ended dynamic asset allocation fund
4	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)
5	Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets	An open ended scheme investing in arbitrage opportunities
6	Equity Savings	Minimum investment in equity & equity related instruments- 65% of total assets and minimum investment in debt- 10% of total assets Minimum hedged & unhedged to be stated in the SID.	An open ended scheme investing in equity, arbitrage and debt





		Asset Allocation under defensive considerations may also be stated in the Offer Document	
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@ Mutual Funds will be permitted to offer either an Aggressive Hybrid fund or Balanced fund

## Foreign securities will not be treated as a separate asset class

**D. Solution Oriented Schemes:**

Sr. No	Category of Schemes	Scheme Characteristics	Type of scheme (uniform description of scheme)
1	Retirement Fund	Scheme having a lock-in for at least 5 years or till retirement age whichever is earlier	An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier)
2	Children's Fund	Scheme having a lock-in for at least 5 years or till the child attains age of majority whichever is earlier	An open ended fund for investment for children having a lock-in for at least 5 years or till the child attains age of majority (whichever is earlier)

**A. 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)