

Mutual Fund Recategorisation – Easy Visual Snapshot

Key changes across equity, debt, hybrid, Life Cycle, FoFs and overlap rules – simplified for investors.

Based on SEBI circular dated 26 February 2026

1. Big Picture At A Glance

OVERVIEW

Quick summary of what has changed and how it affects mutual fund investors.

Area	What Has Changed	What It Means For You
Overall framework	The earlier categorisation clause has been replaced with an updated, more detailed framework.	Scheme names, categories and benchmarks will look more standardised across mutual funds.
Equity schemes	Definitions tightened; explicit portfolio overlap limits between similar equity strategies.	Less duplication and clearer differentiation between equity funds within the same AMC.
Debt schemes	Duration bands and credit rules clarified; new allowance for sector-focused debt funds.	You can see duration and credit risk more clearly and use sector-specific debt where suitable.
Hybrid schemes	Equity–debt ranges reaffirmed and rules on arbitrage, InvITs, Gold/Silver ETFs clarified.	Better visibility on how “conservative”, “balanced” or “aggressive” each hybrid truly is.
Life Cycle Funds	New category with predefined maturity, glide path and exit load structure.	Ready-made goal-based funds that automatically de-risk as your goal year approaches.
Solution-oriented schemes	Category discontinued; existing schemes to be merged into other categories.	Some legacy “retirement/children” funds will eventually merge; AMCs will update investors.
FoFs & index/ETFs	Standardised sub-categories, minimum allocations and naming patterns.	Easier to understand exactly what each FoF or index/ETF is designed to track.
Disclosures	Mandatory monthly portfolio-overlap disclosure by category on AMC websites.	You and your advisor can see how different schemes really differ in their holdings.

2. Equity Schemes – What's New In Simple Terms

How the core equity categories are refined and what that means in practice.

Theme	Earlier Position (High Level)	New / Reinforced Rule	Practical Impact
Market-cap buckets	Large Cap, Mid Cap, Small Cap, Multi Cap, Large & Mid Cap etc. already existed with basic allocation rules.	Same buckets continue; minimum equity allocation thresholds within each bucket are clearly reaffirmed.	Better comfort that funds will stay true to their stated market-cap segments.
Value vs Contra	Both styles existed, but overlap between the two was not explicitly capped.	AMCs may offer both, but portfolio overlap between Value and Contra funds is capped at 50%.	Higher chance that each fund has its own distinct investment style and portfolio.
Sectoral / thematic	Sector/thematic funds existed without a quantified overlap cap against other equity schemes.	Portfolio overlap with other equity schemes (except Large Cap) cannot exceed 50%, with a glide path for existing funds.	Sector/thematic funds become more "pure play" and less like clones of diversified schemes.
Residual investments	Residual portions could be invested defensively within regulations, but disclosure was less standardised.	Clear guidance that residuals can go into equity, money-market, gold/silver and InvITs within limits.	Improved transparency on how cash and defensive allocations are managed in equity schemes.

3. Debt Schemes – Easy Duration & Credit Map

DEBT

A quick map of where each debt category sits on duration and credit risk.

3.1 Duration-Based Categories (Simplified)

Category	Portfolio Duration	Key Point For Investors
Overnight Fund	Invests in overnight securities; small portion can be in very short G-secs/T-Bills for margin or collateral.	Pure parking for 1-day type money; very low interest-rate risk.
Liquid Fund	Debt and money-market securities with maturity up to 91 days.	Suitable for parking money for a few days to a few months.
Ultra Short Term	Macaulay duration between 3 and 6 months.	Slightly higher return potential than liquid funds with still low duration risk.
Ultra Short to Short Term	Macaulay duration between 6 and 12 months.	For money that can be parked for roughly 6–12 months.
Money Market Fund	Invests in money-market instruments maturing up to 1 year.	Short-term parking with a wider set of instruments.
Short Term Fund	Macaulay duration between 1 and 3 years.	Targets 1–3-year goals with moderate duration risk.
Medium Term Fund	Macaulay duration normally between 3 and 4 years; can be reduced temporarily down to 1 year in adverse conditions.	For medium-term investors; fund manager has some flexibility to manage interest-rate risk.
Medium to Long Term	Macaulay duration normally between 4 and 7 years; can be reduced temporarily down to 1 year if required.	For longer-term fixed-income investors comfortable with higher duration risk.
Long Term Fund	Macaulay duration greater than 7 years.	Highest duration risk; most sensitive to interest-rate moves.
Dynamic Term Fund	Can invest across durations as per manager view.	Flexible duration profile that changes with the interest-rate outlook.

3.2 Credit / Sector Focus

Category	Core Allocation Rule	What It Tells You
Corporate Bond Fund	Primarily invests in higher-rated corporate bonds.	Focus on better credit quality in corporate issuers.
Credit Risk Fund	Invests mainly in lower-rated corporate bonds (within SEBI limits).	Aimed at higher yields with higher credit risk.

Category	Core Allocation Rule	What It Tells You
Banking & PSU Debt	Major allocation to bank, PSU, public financial institution and municipal debt.	Concentrated exposure to banking and public-sector borrowers.
Gilt Fund	Invests mostly in government securities across maturities.	Pure sovereign credit risk with interest-rate sensitivity.
10-Year Constant Maturity Gilt	Maintains portfolio duration around 10 years in government securities.	Long-duration sovereign exposure; very sensitive to rate changes.
Floating Rate Fund	Invests primarily in floating-rate instruments or converts fixed to floating using derivatives.	Returns track short-term rates more closely than long-duration fixed-rate funds.
Sectoral Debt Fund	Invests in debt of a specific sector such as Financials, Energy, Infrastructure, Housing or Real Estate.	Lets you take a focused sector view through debt rather than equity.

4. Hybrid, Life Cycle & Solution-Oriented – Client View

HYBRID & LIFE CYCLE

Where hybrid funds sit on the risk spectrum and how new Life Cycle funds work.

4.1 Hybrid Funds – Equity vs Debt Balance

Category	Equity Range	Debt Range	Special Notes
Conservative Hybrid	Roughly 10–25% in equity.	About 75–90% in debt.	Debt-heavy option with a limited equity kicker.
Balanced Hybrid	Roughly 40–60% in equity.	About 40–60% in debt.	No arbitrage strategies allowed; a pure equity–debt blend.
Aggressive Hybrid	Typically 65–80% in equity.	About 20–35% in debt.	Behaves closer to equity with some debt cushion.
Dynamic Asset Allocation	Equity exposure changes dynamically.	Debt adjusts as equity allocation changes.	Model-driven shifts between equity and debt based on market conditions.
Multi Asset Allocation	Equity is one of at least three asset classes.	Debt is another core component.	Includes at least three assets (for example equity, debt, gold) with minimum allocation to each.
Arbitrage Fund	Maintains equity and equity-related exposure while hedging through arbitrage.	Debt limited to short-term government securities and repos.	Targets arbitrage spreads with equity-oriented tax treatment.
Equity Savings	Gross equity remains high, but a part is hedged.	Debt is at least a small, defined portion.	Risk sits between pure equity and traditional hybrid funds.

Note: In most hybrid categories (except arbitrage), a small residual portion can also be invested in InvITs, ETCDs and Gold/Silver ETFs within SEBI limits.

4.2 Life Cycle Funds – Goal-Based Picture

Feature	Design	Client-Friendly Interpretation
Tenure	Each fund has a defined maturity year (for example 2035, 2040, 2045), typically 5–30 years away.	You choose a fund whose maturity is close to your goal year (retirement, education, major purchase, etc.).
Asset mix over time	Follows a predefined glide path across equity, debt, gold/silver and InvITs as years to maturity reduce.	Starts with higher equity in early years and gradually shifts into more stable assets.

Feature	Design	Client-Friendly Interpretation
Use of arbitrage	Closer to maturity (within 5 years), a part of equity can be in arbitrage positions within allowed bands.	Helps manage risk while still retaining equity-oriented tax treatment.
Exit loads	Higher exit load in the first year, reducing over the next two years.	Encourages long-term holding instead of frequent entry and exit.
Naming & benchmark	Scheme name carries the maturity year and follows multi-asset benchmark norms.	Easier to identify the target year and compare performance against a suitable benchmark.

4.3 Solution-Oriented Schemes – What Happens Now?

Earlier	Now	What You Should Do
Separate label	Solution-oriented funds (like retirement and children's funds) had their own category.	Category is being phased out; schemes will stop taking fresh subscriptions and will be realigned.
Existing schemes	Continued as standalone categories earlier.	Such schemes will be merged into other suitable categories with similar asset allocation and risk profile.
Investor action	Investors held units under the solution-oriented label.	Watch for AMC communication on mergers and review if the post-merger scheme still fits your goals.

5. FoFs, Index/ETFs & Portfolio Overlap – Visibility Tools

FOFS & PASSIVE

How feeder funds, index products and overlap disclosures become easier to understand.

5.1 FoFs & Passive Schemes – Cleaner Labels

Product Type	Key Rule	Investor Takeaway
Index Funds / ETFs	Must invest the bulk of assets in securities of the tracked index.	If the name mentions Nifty 50, Nifty 500, etc., you know most of the portfolio mirrors that index.
Single-Underlying FoF	Invests almost entirely into one specific underlying mutual fund.	Behaves like a feeder fund into that single scheme.
Multi-Underlying FoFs	Clearly classified as equity-oriented, debt-oriented, hybrid, commodity, overseas or combined domestic-plus-overseas.	The name and category tell you if it is equity heavy, debt heavy or truly diversified across assets/regions.
Number of FoFs per AMC	Limits on how many FoFs an AMC can launch within each sub-category.	Reduces clutter of near-duplicate FoFs and makes product shelves easier to navigate.

5.2 Portfolio Overlap – New Transparency Layer

Aspect	New Requirement	How It Helps You
Value vs Contra funds	Overlap between an AMC's Value and Contra schemes is capped at a defined level.	If you hold both, they should give genuinely differentiated exposure instead of being near-identical.
Sectoral / thematic funds	Portfolio overlap with other equity schemes is capped, with a glide path for existing schemes.	Ensures sector/thematic funds stay focused on their theme rather than duplicating diversified portfolios.
Category-wise disclosure	AMCs must publish overlap data (equity vs equity, debt vs debt, hybrid vs hybrid) on their websites.	Makes it easier to build genuinely diversified portfolios instead of many similar schemes.