Understanding Mutual Fund Scheme Categories

To bring uniformity, transparency and ease of comparison across mutual fund schemes, the Securities and Exchange Board of India (SEBI) has prescribed a standardized categorisation and rationalisation framework for mutual fund schemes

This framework helps investors understand the nature of schemes, assess risk appropriately, and make informed investment decisions.

Why SEBI Categorised Mutual Fund Schemes

SEBI's categorisation framework aims to:

✓ Bring **clarity and consistency** across mutual fund products
✓ Avoid **confusion caused by multiple similar schemes**
✓ Help investors **compare schemes across fund houses**
✓ Ensure schemes invest **only within defined limits**
✓ Improve **investor protection and transparency**

SEBI has classified mutual fund schemes into five broad categories based on asset allocation and investment strategy.

Broad category and subcategories

1. **Equity-Oriented Schemes (Higher risk, higher return potential over the long term)**

These schemes invest predominantly in equities. Suitable for investors seeking long-term wealth creation and who can tolerate market fluctuations.

Asset Allocation:

- **Equity & equity-related instruments: *Minimum 65%* of total assets**

Common Sub-Categories Include:

- Large Cap Fund – minimum 80% in large cap stocks
- Mid Cap Fund – minimum 65% in mid cap stocks
- Small Cap Fund – minimum 65% in small cap stocks
- Flexi Cap Fund – minimum 65% in equities (no market-cap restriction)
- Multi Cap Fund – minimum 25% each in large, mid & small cap stocks
- Large & Mid Cap Fund- minimum 35% each in large and mid cap stocks
- Dividend Yield Fund- predominantly in dividend yielding stocks, minimum 65%in equity
- Value Fund- minimum 65% in equity, follows value investment strategy
- Contra Fund- minimum 65% in equity, follows contrarian investment strategy

- Focused Fund- maximum 30 stocks , minimum 65% in equity
- Sectoral / Thematic Fund – minimum 80% in a specific sector or theme
- ELSS (Tax Saving Fund) – minimum 80% in equities with a 3-year lock-in

Currently AMCs are allowed to offer either value or contra Fund.

2. Debt-Oriented Schemes *(Lower risk compared to equity, relatively stable returns)*

These schemes invest in fixed income and money market instruments.

Suitable for Investors looking for income, capital preservation, or short- to medium-term goals.

Asset Allocation:

- **Debt & money market instruments: *Up to 100%*, depending on scheme type**

Common Sub-Categories Include:

- Overnight Fund – investments in overnight securities with maturity of 1 day
- Liquid Fund – investment in securities with maturity up to 91 days
- Ultra Short Duration Fund – Macaulay Duration of the portfolio is between 3 to 6 months
- Low Duration Fund- Macaulay Duration of the portfolio is between 6 to 12 months
- Money Market Fund- investment in securities with maturity up to 1 year
- Short Duration Fund- Macaulay Duration of the portfolio is between 1 to 3 years
- Medium Duration Fund- Macaulay Duration of the portfolio is between 3 to 4 years
- Medium to Long Duration Fund- Macaulay Duration of the portfolio is between 4 to 7 years
- Long Duration Fund- Macaulay Duration of the portfolio is greater than 7 years
- Dynamic Bond Fund- investment across duration
- Corporate Bond Fund – minimum 80% in high-rated corporate bonds(AA+ and above)
- Credit Risk Fund- minimum 65% in AA and below rated corporate bonds

- Banking & PSU Fund- minimum 80% in banks , PSU , PFI's and municipal bonds
- Gilt Fund – minimum 80% in government securities
- Gilt Fund with 10 year constant duration- minimum 80% in government securities, Macaulay Duration of the portfolio is equal to 10 years
- Floater Fund- minimum 65% in floating rate instruments

3. Hybrid Schemes *(Balance between growth and stability)*

These schemes invest in a combination of equity and debt. Suitable for investors seeking balanced risk and returns.

Asset Allocation:

- Conservative Hybrid Fund: Predominantly in debt instruments
    - Equity: *10%–25%*
    - Debt: *75%–90%*
- Aggressive Hybrid Fund: Predominantly in equity and equity related instruments
    - Equity: *65%–80%*
    - Debt: *20%–35%*
- Dynamic Asset Allocation / Balanced Advantage Fund: Dynamic Asset Allocation Fund
    - Equity & debt allocation **varies dynamically** based on market conditions.
- Multi Asset Allocation Fund:
    - Minimum *10% each* in at least **three asset classes** (equity, debt, gold, etc.)
- Arbitrage Fund : investing in arbitrage opportunities and follows arbitrage strategy. Minimum 65% in equity.
- Equity Savings Fund : investing in equity , arbitrage and debt . Minimum 65% in equity, minimum 10% in debt. Defensive allocation allowed.

- Balanced Hybrid Fund: balanced in equity and debt instruments. No Arbitrage allowed.
    - Equity – 40%- 60%
    - Debt – 40%-60%

AMC's are allowed to offer either an Aggressive Hybrid Fund or Balanced Fund.

4. Solution-Oriented Schemes *(Designed for specific long-term goals)*

These schemes focus on retirement or children's future needs. Suitable for investors with defined long-term financial goals.

Key Feature:

- **Mandatory lock-in of at least 5 years** or until a specified milestone

Sub-Categories:

- Retirement Fund
- Children's Fund

5. Other Schemes (Investors preferring passive investing or diversified exposure.)

- **Index Funds / ETFs:** Invest **at least 95%** in securities of a specific market index
- **Fund of Funds (FoF): Invest minimum 95%** in underlying mutual fund schemes or ETFs

Important Points for Investors

- Each AMC can offer only one scheme per category
- Scheme names clearly indicate investment style and asset allocation
- Asset allocation limits are strictly monitored by Regulator
- Risk and return vary across categories — there is no "one-size-fits-all" scheme. Choose schemes based on **risk appetite and time horizon.**

Hence before investing, investors should:

- Understand the **scheme category and asset allocation**
- Match the scheme with **risk appetite and investment horizon**
- Read the **Scheme Information Document (SID)** and **Statement of Additional Information (SAI)** carefully
- Remember that **past performance does not guarantee future returns**

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