THE INVESTigator

A bi-monthly newsletter published by Swap Consultants Pvt. Ltd., Nagpur

Vol. 15 No. 1 April - May 2018

SEBI CIRCULAR ON SCHEME CATEGORIZATION AND RATIONALIZATION

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.

In order to bring the desired uniformity in the practice, across Mutual Funds and to standardize the scheme categories and characteristics of each category, SEBI has issued a circular on the subject and decided to categorize the schemes as given below :

HYBRID SCHEMES

Category	Scheme Characteristics
Conservative Hybrid Fund	Investment in equity between 10% and 25% Investment in Debt instruments- between 75% and 90%
Balanced Hybrid Fund @	Equity- between 40% and 60% Debt instruments- between 40% and 60% of total assets No Arbitrage would be permitted in this scheme
Aggressive Hybrid Fund @	Equity - between 65% and 80% of total assets; Debt instruments- between 20% 35% of total assets
Dynamic Asset Allocation or Balanced Advantage	Investment in equity/ debt that is managed dynamically
Multi Asset Allocation	Invests in at least three asset classes with a minimum allocation of at least 10% each in all three asset classes
Arbitrage Fund	Scheme following arbitrage strategy. Minimum investment in equity & equity related instruments- 65% of total assets
Equity Savings Fund	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. .

@ Mutual Funds will be permitted to offer either an Aggressive Hybrid fund or Balanced Fund.

EQUITY SCHEMES

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** : 1st -100th company in terms of full market capitalization

b. **Mid Cap** : 101st -250th company in terms of full market capitalization

c. **Small Cap** : 251st company onwards in terms of full market capitalization

Mutual Funds would be required to adopt the list of stocks prepared by AMFI in this regard.

Category	Scheme Characteristics
Multi Cap Fund	Min. investment in equity & equity related instruments- 65% of total assets
Large Cap Fund	Min investment in equity of large cap companies- 80% of total assets
Large & Mid Cap Fund	Min investment in equity & equity related instrnts of large cap cos- 35% of total assets & of mid cap stocks- 35% of total assets
Mid Cap Fund	Minimum investment in equity of mid cap companies- 65% of total assets
Small cap Fund	Minimum investment in equity of small cap cos- 65% of total assets
Dividend Yield Fund	Scheme should predominantly invest in dividend yielding stocks - 65% of total assets
Value Fund*	Scheme should follow a value investment strategy. - 65% of total assets
Contra Fund*	Scheme should follow a contrarian investment strategy - 65% of total assets
Focused Fund	Scheme should focus on maximum 30 stocks – 65% of total assets.
Sectoral/ Thematic	Minimum investment in equity of a particular sector/ particular theme- 80% of total assets
ELSS	Minimum investment in equity - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance)

* Mutual Funds will be allowed to keep either Contra Fund or Value Fund

SOLUTION ORIENTED SCHEMES

Retirement Fund	Scheme having a lock-in for at least 5 years or till retirement age whichever is earlier
Children's Fund	Scheme having a lock-in for at least 5 years or till the child attains age of majority whichever is earlier

- Contd. Page 3

SYSTEMATIC INVESTMENT PLAN

Make investment as low as Rs 1000 per month	**Gives you peace of mind against market volatility**	**Invest in a consistent and disciplined manner**	**Assists you in long term wealth creation**

DEBT SCHEMES

Category	Scheme Characteristics
Overnight Fund	Investment in overnight securities having maturity of 1 day
Liquid Fund	Investment in Debt and money market securities with maturity of upto 91 days only
Ultra Short Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 - 6 months
Low Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 - 12 months
Money Market Fund	Investment in Money Market instruments having maturity upto 1 year
Short Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year – 3 years
Medium Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 to 4 years
Medium to Long Duration Fund	Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 4 – 7 years
Long Duration Fund	Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years
Dynamic Bond	Investment across duration
Corporate Bond Fund	Minimum investment in corporate bonds- 80% of total assets (only in highest rated instruments)
Credit Risk Fund	Minimum investment in corporate bonds- 65% of total assets (investment in below highest rated instruments)
Banking and PSU Fund	Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions- 80% of total assets
Gilt Fund	Minimum investment in Gsecs- 80% of total assets (across maturity)
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
Floater Fund	Minimum investment in floating rate instruments- 65% of total assets

Macaulay Duration : The Macaulay Duration [named after Frederik Macaulay, an economist, who developed the concept in 1938] is a measure of a bonds sensitivity to interest rate changes. Simply stated, it is the weighted average number of years an investor must maintain a position in the bond until the Present Value of the bond’s cash flows equals the amount paid for the bond.

- Contd. Page 4

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 proposedcourse 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 o 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 maximumc period of 3 months from the date of such observation.

e 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.

Disclaimer :
Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities of any entity. Swap Consultants Pvt. Ltd. and/or its Affiliates make no representation as to the accuracy, completensess or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Swap consultants Pvt. Ltd. or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Swap Conslutants Pvt. Ltd. liable in any manner whatsoever and Swap Consultants Pvt. Ltd. or any of its officers, employees, personnel, directors shall not be liable of any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Book - Post

To,

From :
The Investigator
Swap Consultants Pvt.Ltd.
Above NCC Office, VCA Complex, Civil Lines,
Nagpur - 1 Ph. : 0712 - 6641111, 6641166 / 67
email : swapconsultants@yahoo.com

Published & Printed by Swap Consultants Pvt. Ltd., Civil Lines, Nagpur and Printed at Parasnath Computers & Printers, Sadar, Nagpur