

# SEBI Mutual Fund Guidelines: Key Changes (2026)

## 1. Equity Scheme Changes:

### A. Portfolio Overlap Cap:

- Maximum 50% portfolio overlap permitted:
  - Between sectoral/thematic funds and other equity schemes (except large-cap funds).
  - Between Value and Contra funds.
- Overlap will be assessed quarterly, based on daily portfolio holdings data.
- Mandatory disclosure of category-wise overlaps on AMC websites (monthly).
- Existing sectoral/thematic schemes must comply with portfolio overlap limits within 3 years; those failing to do so will be compulsorily merged with other schemes.
- Existing schemes given 3-year glide path:

Year	% of Excess Overlap to Reduce
Year 1	35%
Year 2	Additional 35%
Year 3	Remaining 30%

**B. Value & Contra Funds:** Earlier, mutual funds could launch either a Value Fund or a Contra Fund. Under the new rules, they can offer both, as long as the portfolio overlaps between the two does not exceed 50%.

**C. Sectoral/Thematic Launch Control:** AMCs can launch sector/thematic funds only from AMFI-approved list (updated half-yearly).

**D. Residual Portion Investment:** In equity schemes, mutual funds can invest the residual portion in equity, money market and other liquid instruments. They may also invest in gold, silver, and InvITs, within SEBI's prescribed limits for each asset class.

**E. Naming & True-to-Label Reform:** Scheme name must match category exactly and return-promising words not allowed in scheme names. Uniform scheme description is mandatory.

**F. Minimum Equity Allocation Raised to 80%:** SEBI has raised the minimum required equity allocation from 65% to 80% for Dividend Yield Funds, Value Funds, Contra Funds, Focused Funds, and ELSS funds.

**G. Number of Equity Oriented Schemes:** The number of equity-oriented scheme categories has increased from 11 to 13. Additionally, the ELSS category has been renamed to "ELSS – Tax Saver Fund."

## 2. Debt Scheme Changes:

**A. New Category Introduced:** A key change is the introduction of the new Sectoral Debt Fund category, which must invest at least 80% of its assets in AA+ and above rated corporate bonds within specified sectors such as financial services, energy, infrastructure, housing, and real estate.

**B. InvIT Exposure:** Debt schemes (except overnight, liquid, ultra-short, money market) may invest residual portion in InvITs subject to the ceilings laid out in MF regulations.

**C. Revised Category Names:** Multiple debt fund categories have been renamed to make them more intuitive, without altering their underlying duration frameworks. For instance, Dynamic Bond Funds are now termed Dynamic Term Funds, and Low Duration Funds are reclassified as Ultra Short to Short Term Funds.



**D. Medium & Medium-to-Long Duration Funds:** Fund managers may temporarily reduce duration below prescribed band during adverse interest rate conditions with mandatory information such as written justification, trustee review and disclosure in Half-Yearly Trustee Report.

### 3. Hybrid Scheme Changes:

**A. Arbitrage Funds:** Debt exposure is limited to government securities (<1 year maturity) and no InvIT exposure is allowed.

**B. Equity Savings Fund:** Added guideline of net equity exposure to be 15–40% of total assets, and minimum debt allocation is set at 10%.

**C.** Residual allocation in hybrid funds may include InvITs, Gold ETFs, Silver ETFs (except arbitrage funds).

### 4. Fund of Funds (FoF) Changes:

**A.** AMC can launch FoF schemes in categories mentioned in the circular with multiple underlying in mainly three options:

- **Active option-** FOFs investing in multiple active funds.
- **Passive option-** FOFs investing in multiple passive funds.
- **Active and passive option-** FOFs investing in multiple active and passive funds.

**B.** In case the number of existing FoFs of an AMC under any particular category/sub-category is greater than or equal to the number of FoFs permitted under that category/sub-category:

- The AMC may merge the existing FoF schemes falling under a category/sub-category to reduce the number of FoFs.
- If an AMC cannot merge excess FoF schemes due to differences in structure or investment objectives, it can request SEBI to allow those schemes to continue under a grandfathering provision.
- For overseas FoFs, AMCs may also add clear identifiers in the scheme name (such as “US Treasury 1–3 Year” or “NASDAQ”) to better inform investors.

### 5. Other Structural changes:

- **Separate category called Solution Oriented Schemes** (e.g., retirement funds, children’s funds like SBI Magnum Children's Benefit Fund) **discontinued with immediate effect.** Existing ones will be absorbed into suitable equity/hybrid/debt schemes with SEBI approval.
- Foreign securities will not be treated as a separate asset class.
- All schemes must align to new categorization within 6 months.
- SEBI introduces a structured **Life Cycle Fund category:**

Feature	Description
<b>Tenure</b>	5–30 years (in multiples of 5)
<b>Structure</b>	Open-ended scheme with glide path strategy-based investing which progressively reduces equity exposure as maturity nears.
<b>Nomenclature of the scheme</b>	It shall include the maturity date, for e.g. Life Cycle Fund 2055, Life Cycle Fund 2045 etc.
<b>Max active funds</b>	6 at a time per AMC
<b>Exit Load</b>	Exit load of 3% if redeemed within 1 year, 2% within 2 years, and 1% within 3 years of investment.
<b>Equity arbitrage</b>	Funds under 5 years to maturity can take up to 50% equity arbitrage exposure, over and above the base equity range. Total equity exposure must still stay within 65%–75%.

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