1. Mutual Fund Regulation- Economy

SEBI broadens MF categories to keep up with changing investor preferences. SEBI's latest overhaul marks a transition toward specialized debt investing and life-stage-based equity planning. By introducing Sectoral Debt Funds (with high AA+ credit requirements) and the Life Cycle Fund category, while capping thematic overlap at 50%, the regulator is balancing the need for higher returns with robust investor protection and market stability.

1. Introduction to Mutual Funds

The Concept- A mutual fund is a trust that pools money from numerous investors with a shared investment objective.
Management- The pool is professionally managed by a Fund Manager who invests in equities, bonds, or money market instruments.
Returns- Gains are distributed proportionately based on the Net Asset Value (NAV) after deducting operational expenses.
SIP (Systematic Investment Plan)- A disciplined investment method allowing individuals to invest fixed amounts at regular intervals (similar to a recurring deposit), rather than a lump-sum payment.

2. Sectoral Debt Mutual Funds- New Norms

For the first time, SEBI has allowed Asset Management Companies (AMCs) to launch debt funds focused on specific industrial sectors.
Investment Threshold- A minimum of 80% of the total assets must be invested in debt and debt-related instruments of a specific sector.
Credit Quality Mandate- To protect investors from credit risk, investments are restricted to corporate bonds with a high credit rating of more than AA+.
Eligible Sectors- AMCs can initially launch these funds in-

1. Financial Services
2. Energy
3. Infrastructure
4. Housing
5. Real Estate

3. Broadening Investment Scope & Caps

Reform Area	New SEBI Regulation
Residual Investment (Equity)	MFs can now invest the "leftover" portion of equity schemes in equity, money market instruments, gold, silver, and Infrastructure Investment Trusts (InvITs).
Long Duration Funds	Residual investments in long-duration funds are now permitted to be allocated to InvITs.
Sectoral/Thematic Exposure	In equity schemes, the overlap between sectoral and thematic funds is capped at 50%, except for large-cap schemes.
AMC Grace Period	Fund houses have a three-year timeline to comply with the new overlap conditions for existing funds.

4. Rationalisation of Fund Categories

SEBI has simplified the categories to reduce investor confusion and align products with long-term life goals.
New Introduction- Life Cycle Fund- A dynamic category designed to adjust asset allocation (equity vs. debt) based on the investor's age and life stage.
Discontinued Categories- * Retirement Funds

1. Children's Funds
2. (Note- These are being streamlined into the Life Cycle or other broader categories).

Tenure Constraints-

1. Minimum Duration- 5 years.
2. Maximum Duration- 30 years.

5. Significance of the Reforms

Depth in Debt Markets- By allowing sectoral debt funds, SEBI is encouraging more focused credit flow into critical sectors like Infrastructure and Energy.

Risk Mitigation- The 50% cap on sectoral/thematic overlap prevents "concentration risk," where an investor might unknowingly be over-exposed to a single sector across different schemes.

Product Flexibility- Allowing gold, silver, and InvITs as residual investments allows fund managers to hedge portfolios better against market volatility.

Source- https-//www.thehindu.com/business/markets/sebi-broadens-mf-categories-to-keep-up-with-changing-investor-preferences/article70680216.ece