



Life cycle funds aim to take timing decisions out of investors' hands

The fund category will follow a preset glide path, reducing equity exposure and raising debt as maturity nears

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Indian markets regulator, Securities and Exchange Board of India (Sebi), has unveiled a new mutual fund category—life cycle funds—designed to automatically shift investors from growth to safety as their near goals such as retirement or a child's education.

The move replaces existing retirement and children's funds with a single structure that follows a pre-defined glide path, gradually rebalancing asset allocation over time and eliminating the need for investors to manually switch—often triggering taxes on delayed decisions.

These open-ended schemes will have a fixed maturity and a defined asset path, with the flexibility to invest across equity, debt, InvTs, commodity derivatives, and gold and silver ETFs. As fund houses prepare launches, the real test will be whether these funds genuinely improve investor outcomes.

How will it work

As it creeps, the structure is simple: risk reduces automatically over time.

In the early years—15 to 30 years before maturity in a 30-year fund—portfolios can hold high equity exposure, typically 65% to 95%, with smaller allocations to debt and limited exposure to gold and silver. As maturity nears, equity is gradually reduced while debt rises to cushion volatility and preserve gains. In the final years, equity may fall to 5% to 20%, with debt becoming dominant.

Fund houses can launch life cycle funds with maturities of 5-30 years. "Such fund may be launched for tenures in multiple of 5 years and a maximum of 6 funds by a mutual fund can be inactive for subscription at any given point in time," Sebi said. The funds must include maturity in their names. For instance, a scheme maturing in 10 years would carry a year-based title such as ABC Fund 2036. When less than a year remains, fund houses may offer investors the option to merge into another scheme with a later maturity, subject to positive consent.

How life cycle funds will work

These funds are aimed at helping investors with their goal-based investments by gradually switching asset allocation from aggressive to conservative along a pre-defined glide path.

What are life cycle funds?

- ▶ The funds will follow a pre-defined glide path across multiple asset classes.
- ▶ A glide path is a pre-determined schedule for gradually shifting asset allocation over time.
- ▶ The funds will have a specified target-date maturity.
- ▶ On maturity, the fund will close and return proceeds to investors.*

*When the fund reaches less than one year of maturity, it can give option to investors to merge fund with another fund with nearest maturity date and continue investments; subject to positive consent from investors.

Can investor exit before maturity date?

- ▶ Yes, it is an open-ended scheme
- ▶ But higher exit load if withdrawal is very short
- ▶ 3% if exit is within 1 year; 2% if within 2 years; 1% if within 3 years



How it helps?

- ▶ These funds will be useful for goal-based investing
- ▶ When the goals are far away, fund can be more aggressive
- ▶ As goal date nears, fund focus shifts to protecting capital

Glide path of a life cycle fund with 30-year maturity

	Years to maturity	Investment in equity (%)	Investment in debt (%)	Investment in gold/silver/ETFs/ETCds**/InvTIs (%)
Starting allocation	15-30 years	65-95	5-75	0-10
	10-15 years	65-80	5-25	0-10
	5-10 years	50-65	5-25	0-10
Closer to goal / fund maturity	3-5 years	35-50	25-50	0-10
	1-3 years	20-35	25-65*	0-10
	< 1 year	5-20	25-65*	0-10

*Exposure in debt instruments shall be limited to AA & above rated instruments with residual maturity less than the target maturity of scheme. **ETCds shall be based only on gold/silver. Source: Sebi

Life cycle funds can invest across multiple asset classes. They may also invest up to 50% in the arbitrage segment when residual maturity is under five years. As open-ended schemes, investors can withdraw any time. But, to encourage "financial discipline", Sebi has allowed higher exit loads. Fund houses can charge up to 3% if investors exit in the first year, 2% in two years, and 1% within three years.

What it means for investors
Earlier, solution-oriented funds

were limited to retirement and children's categories. Under the new rules, these will be discontinued, with life cycle funds becoming the sole structure in the segment. Experts said earlier retirement funds used to offer aggressive, moderate and conservative allocation options, but investors avoided switching over tax concerns. "Life cycle funds enable asset allocation changes within the fund itself, making it more tax-efficient. There is no manual switching required," said

Radhika Gupta, managing director and CEO, Edelweiss Mutual Fund. Deepak Shenoy, CEO, Capitalmind MF said, life cycle funds can work for both medium- and long-term goals.

"If someone has an eight-year education goal for the child, they can invest in a life cycle fund with an eight-year residual maturity. As the goal nears, it automatically shifts to a more conservative asset allocation to protect capital. All the rebalancing happens within the fund, so there is no interim

tax leakage. Tax impact arises only at maturity or at the time of redemption. The structure is such that investors will bear long-term capital gains tax at maturity. If an investor were to implement a glide path, they would typically need to sell growth assets such as equities multiple times along the way, triggering capital gains tax at each stage," Shenoy explained.

"It's the right solution for investors. We need to see how to incorporate risk-profile of different investors in the funds as it is a pooled investment. Even investors of the same age can have different risk-profiles," pointed out Swapnil Mohanty, CEO, Mirae Asset Investment Managers (India).

"This is an excellent idea for investors who can't efficiently manage the timing risks linked to financial goals and hold on to risk assets longer than they should ideally have, considering their upcoming goals. This is a well established international precedent," said Vishal Dhawan, founder of Plan Ahead Wealth Advisors.

What should investors do

Mutual funds are expected to launch life cycle offerings in the coming months, positioning them for long-term goals such as retirement, education and milestone-based investing.

While the framework prescribes a glide path, it allows flexibility within defined asset bands. Investors should examine each fund's starting allocation and how aggressively it positions equity early on. Fund houses are expected to disclose their allocation strategy, enabling comparisons.

Ultimately, suitability will depend on individual risk tolerance. Investors of the same age can differ in income stability, financial obligations and comfort with volatility, making alignment between a fund's glide path and personal risk appetite as crucial as matching maturity to a goal.



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