



YOUR MONEY

LIFE-CYCLE FUNDS

Match goal with fund's tenure, choose glide path suited to risk appetite

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The Securities and Exchange Board of India (Sebi) has introduced a new category of mutual funds called life cycle (LC) funds. These are target-date mutual funds that will automatically change asset allocation as the fund approaches maturity, thereby carrying out the rebalancing that many investors fail to do.

“LC funds are designed for goal-based investing. They automatically manage asset allocation for the investor,” says Radhika Gupta, managing director and chief executive officer (MD & CEO), Edelweiss Asset Management.

Manage equity exposure risk

Automatic asset-allocation management can reduce behavioural errors. “These funds bring discipline and systemisation to the process of reducing equity exposure as the goal approaches,” says Gupta.

These funds will also offer the benefit of diversification. “Investors will be able to diversify into multiple assets, including equity,

debt, gold and silver exchange-traded funds and infrastructure investment trusts (Invits), without having to manage multiple schemes,” says Nitin Agrawal, CEO, Mutual Fund, InCred Money.

The investor need not necessarily redeem their money when the target date arrives. “Auto-merger ensures your money stays invested in a structured manner instead of landing in your bank account where it may be spent or reinvested poorly,” says Anand K Rathi, co-founder, MIRA Money.

Glide path not customised

One limitation of these schemes is a single glide path for all the investors in a fund. “There isn’t much room for customisation for investors with different incomes, risk tolerances and financial circumstances,” says Rathi. He adds that a poorly designed glide path could also mean investors end up with a lower corpus.

Invest if you can't rebalance portfolio

Investors who are unable to choose appropriate products based on

their time horizon will find these funds useful. Many also fail to rebalance their portfolios as their target date approaches. “Investors who should glide into safer instruments closer to their goal but hesitate to do so due to tax or timing issues may find these funds useful,” says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

Some investors build a retirement corpus using a mix of equity, debt and other asset classes. “This approach offers greater flexibility and customisation, but it requires disciplined investing over time,” says Gupta.

Investors who already do disciplined asset allocation themselves, or under advice, may not need an LC fund. “Investors who want flexibility on when they retire may prefer more flexible strategies than a fixed-tenure LC

approach,” says Dhawan.

Follow duration matching strategy

Investors have multiple goals such as their children’s education, their wedding, and their own retirement. They should do “duration matching” while selecting a fund from this category. “They can choose funds whose maturities match the timeline of each of their goals,” says Deepesh Raghaw, a Sebi-registered investment advisor. The equity component would be higher in LC funds meant for long-term goals. “Investors should be comfortable with the interim volatility,” says Dhawan.

They should ensure that the glide path of their chosen fund aligns with their risk appetite.

Taxation ambiguity

Investors who hold separate equity, debt and commodity funds have to pay tax each time they rebalance their portfolio. “In LC funds, since the rebalancing happens within the fund, investors do not face taxation each time the allocation is adjusted,” says Gupta.

The key question is whether these funds will get equity-like taxation at maturity. Greater clarity is needed on this. “As the glide path reduces equity below 65 per cent, gains could be taxed at the slab rate,” says Agrawal.

Sebi has allowed these funds to take exposure to equity arbitrage. “They could use arbitrage to avoid being treated as debt funds,” says Raghaw.

Finally, LC funds will not have a track record initially. As a proxy, Dhawan suggests considering the fund house’s track record in funds of a similar tenure.

All about life cycle funds

- Assets allowed: Equity, debt, Invits, gold ETF, silver ETF, and exchange-traded commodity derivatives
- Sebi-prescribed asset-allocation ranges across years-to-maturity
- Tenure: Minimum 5 years, maximum 30 years, in 5-year multiples
- When <1 year to maturity, fund may merge into nearest-maturity LC fund, with unitholder consent
- Exit load slab: 3% if exited within 1st year; 2% in 2nd year; 1% in 3rd year