The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE
1401 H Street, NW, Washington, DC 20005 USA

August 8, 2025

By email
Anupma Chadha
General Manager
Investment Management Department
Securities and Exchange Board of India

RE: Categorization and Rationalization of Mutual Fund Schemes and the Benefits of Target Date (Lifecycle) Funds

Dear Ms. Chadha:

The Investment Company Institute (ICI), the leading association representing the global asset management industry,[1] welcomes the Securities and Exchange Board of India (SEBI)'s initiative to review the 2017 "Categorization and Rationalization of Mutual Fund Schemes" framework.[2] We support SEBI's ongoing efforts to encourage product innovation and improve investor outcomes, while ensuring that the mutual fund industry in India continues to be resilient and a trustworthy avenue for long-term wealth creation.

In this context, ICI strongly supports the proposed inclusion of lifecycle funds, also referred to as Target Date Funds (TDFs), within SEBI's mutual fund classification.

TDFs are especially well-suited to support retirement savers, as they offer a structured, transparent and professionally managed investment solution that adapts over time to an investor's changing financial needs and risk tolerance.

---

[1] The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in North America, Europe, and Asia and manage fund assets of US$50 trillion, including mutual funds, exchange-traded funds (ETFs), UCITS, closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Washington DC, Brussels, and London.

[2] Consultation Paper on Categorization and Rationalization of Mutual Fund Schemes https://www.sebi.gov.in/reports-and-statistics/reports/jul-2025/consultation-paper-on-categorization-and-rationalization-of-mutual-fund-schemes_95419.html

India already recognizes the value of lifecycle investing through its National Pension System (NPS), which offers options such as the Balanced Life Cycle Fund for retirement savers. It is a natural step to also allow TDFs under the mutual fund classification framework.

In markets such as the United States, TDFs have become a cornerstone of retirement savings. Their growth has been driven by a compelling combination of features: diversified asset allocation, automatic rebalancing, and age-appropriate de-risking over time. These qualities make them an ideal “set-it-and-forget-it” solution for investors, particularly those with limited financial expertise or who are early in their careers.

We believe that allowing TDFs within SEBI’s mutual fund classification framework will have a variety of benefits, including:

- Aligning mutual fund offerings with India’s retirement policy direction as reflected in the NPS;
- Encouraging broader investor participation, particularly for first-time and younger investors, by offering intuitive and professionally managed investment solutions; and
- Supporting retirement-focused innovation by providing fund managers with regulatory clarity to offer dynamic, lifecycle-based strategies.

Ultimately, this evolution in classification will help Indian savers achieve better long-term retirement outcomes through well-designed, easy-to-use products.

We welcome the opportunity to engage further with SEBI on this important topic and to share the lessons learned from the U.S. experience. For your reference, we have attached a short overview of how TDFs have developed and thrived in the United States.

If you have any questions, please feel free to contact me at Matthew Mohlenkamp at matthew.mohlenkamp@ici.org or Tracey Wingate at tracey.wingate@ici.org.

Sincerely,

/s/Matthew Mohlenkamp

Matthew Mohlenkamp
Managing Director for Asia and Global Analytics

Attachment: The U.S. Experience with Target Date Funds

Appendix: The U.S. Experience with Target Date Funds

The Important Role of Asset Management Industry in Retirement Savings

In the United States, the asset management industry plays a key role in helping Americans save for retirement and other long-term financial goals. The growth and expansion of the long-term investment ecosystem have been supported by national policies that incentivize individuals to invest, including the creation of tax-advantaged savings accounts. To support these retirement and saving account programs, asset managers offer a diverse range of solution-oriented investment options tailored to individual needs. Assets in retirement accounts have grown significantly over the past five decades in the United States, reaching $44.1 trillion in 2024, representing more than one-third of American households' financial assets.[3] This strong foundation has paved the way for the rise of retirement-oriented funds, including Target Date Funds, which have become a popular and effective investment vehicle for retirement savers seeking simplicity, diversification, and automatic portfolio adjustment over time.

Characteristics of Lifecycle or Target Date Funds (TDFs) in the United States

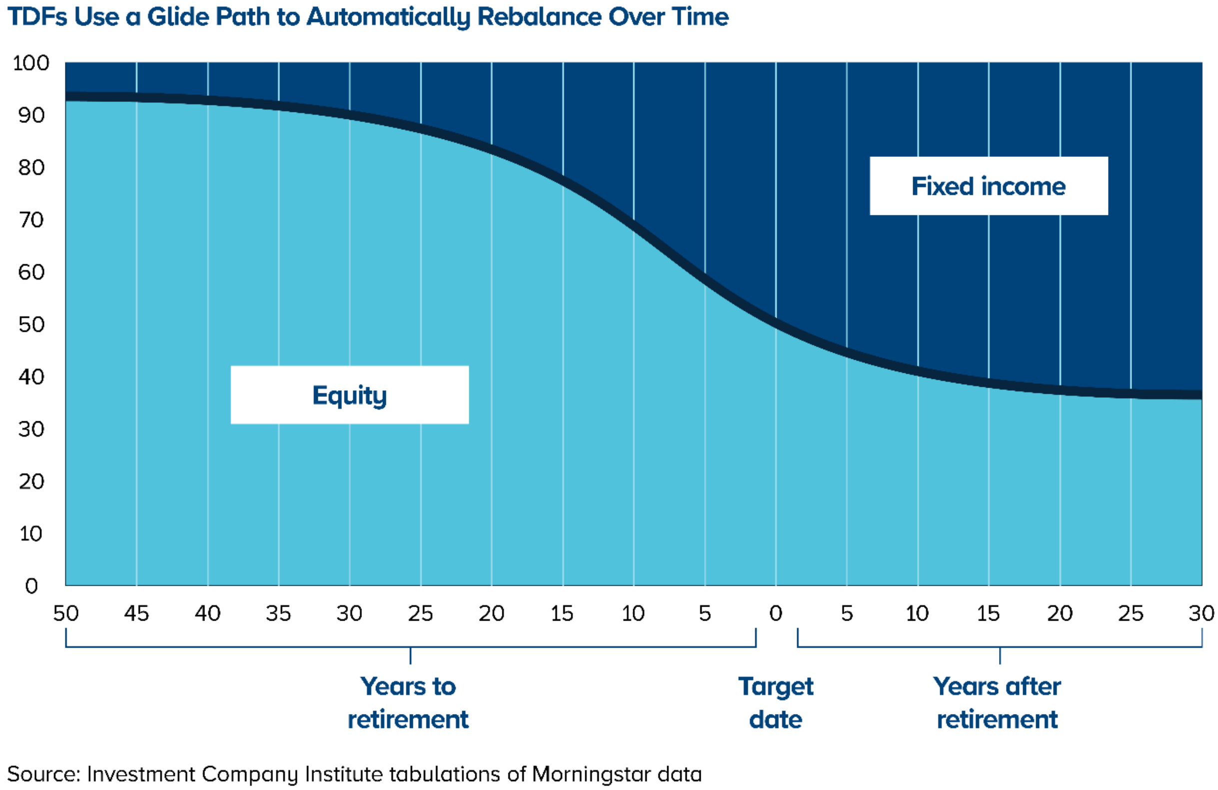
A TDF (also known as a lifecycle fund) is a type of balanced investment fund that holds a mix of equities and bonds and rebalances over time. Investors typically select a TDF with the target year that aligns closely with their expected retirement date. The fund is structured to gradually shift its asset allocation over time from a higher concentration in equities during the early years of working (when investment growth is prioritized) to a greater emphasis on fixed income investments as the target date nears and passes. This systematic rebalancing allows TDF to balance long-term growth potential with increasing focus on income as the investor nears retirement.

This gradual reallocation is called a "glide path." Each investment management firm that offers TDFs has its own specific glide path formula, indicating the changing shares of equities and bonds over time. On average, most TDFs in the United States begin with about a 90% allocation to diversified equities, falling to about 44% by the target date, and most continue to gradually adjust the allocations past the target date.

Glide paths are developed by each asset manager based on historical market data, investor behavior, and key risk factors such as volatility, inflation, and longevity. They are grounded in modern portfolio theory and tested through simulations. This approach offers a flexible and investor-aligned framework for long-term retirement planning.

---

[3] 2025 Investment Company Fact Book, available at https://www.icifactbook.org/pdf/2025-factbook.pdf



Using TDFs in retirement accounts offers many benefits for investors:

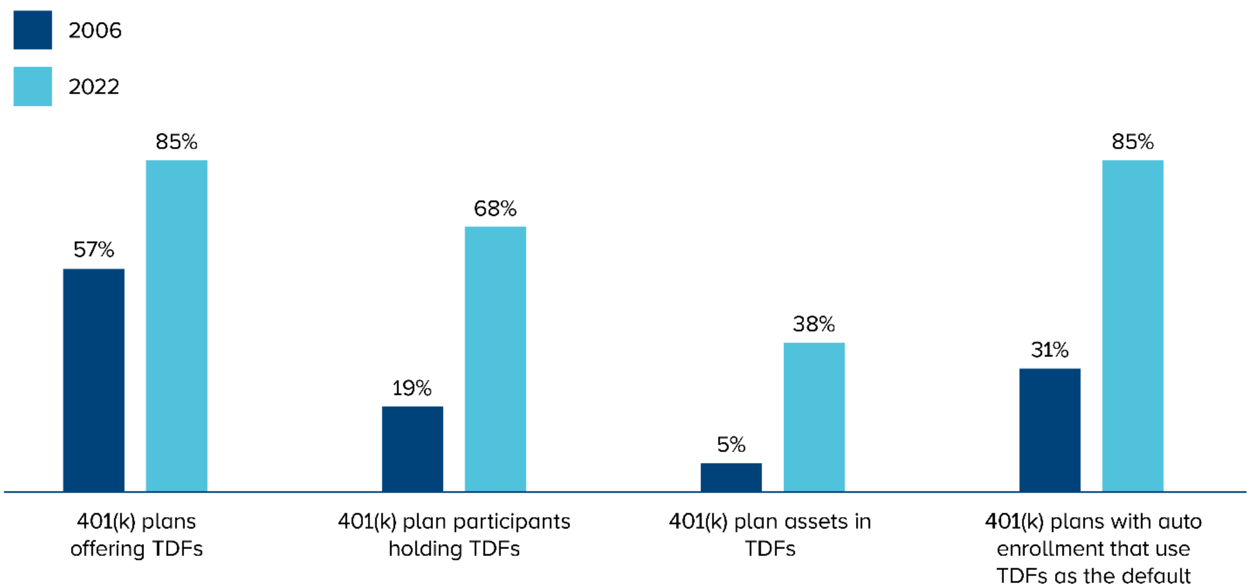
- TDFs are well-suited for individuals with limited investment experience or for those who prefer a "hands-off" approach, as these funds automatically adjust over time and eliminate the need for investors to actively monitor and rebalance their portfolios.
- TDFs offer a resilient, diversified strategy designed to grow retirement savings while adapting to changing financial needs.
- TDFs are a cost-effective approach to access a diversified and professionally managed portfolio.

The Growing Popularity of Target Date Funds in the United States

The first TDF was introduced in 1994 to address the needs of busy workers who had retirement plans through their employers and wanted professional management of their asset allocation. Since then, these funds have revolutionized the U.S. retirement landscape.

In 2007, a pivotal regulatory change[4] recognized that individuals saving for retirement should not put all of their eggs in one basket. The U.S. Department of Labor designated TDFs as one of the qualified default investment alternatives (QDIAs) for the U.S defined contribution (DC) plans known as 401(k) plans. This change enabled employees to be automatically enrolled in professionally managed, age-appropriate TDFs, ensuring that even passive participants in DC plans benefit from a diversified portfolio that systemically rebalances assets over time as they approach retirement.

TDF Use in 401(k) Plans Has Substantially Increased Over Time



Sources: EBRI/ICI 401(k) Database; and Plan Sponsor Council of America, Annual Survey of Profit Sharing and 401(k) Plans

Because of their ease of use and effectiveness, TDFs have quickly become a retirement investing staple for millions of Americans, with 401(k) plan sponsors and participants increasingly embracing TDF investing.[5] At year-end 2022, 85% of 401(k) plans included TDFs in their investment lineup, and by 2023, 86% of 401(k) plans using automatic enrollment had designated TDFs as the default investment option for new participants. Due to these changes and the growing popularity of TDFs, at year-end 2022 nearly 40% of 401(k) plan assets were invested in TDFs and TDFs were used by nearly 70% of 401(k) participants.

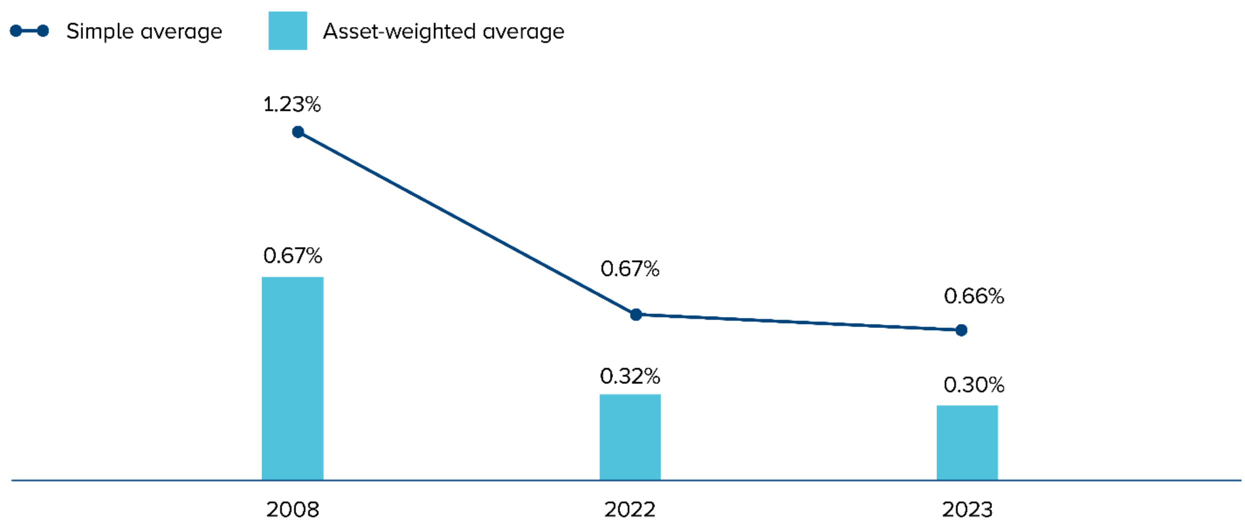
---

[4] ICI Viewpoints "Ten Years After the PPA, the Path to Retirement Saving Is Easier", available at https://www.ici.org/viewpoints/view_16_ppa

[5] Quick Facts on Target Date Fund Use in Retirement Plans, available at https://www.ici.org/system/files/2024-10/quick-facts-tdfs-retirement-plans.pdf

Finally, TDFs are a cost-effective approach to access a diversified and professionally managed portfolio. In the United States, competition and economies of scale have pushed TDF expense ratios down substantially. For example, mutual fund TDF expense ratios in the United States have fallen by more than half since 2008 and averaged only 0.30% as of 2023.

TDF Mutual Fund Expense Ratios Have Fallen Substantially



Source: Investment Company Institute tabulations of Morningstar data

While participants in employer-sponsored U.S. defined contribution retirement plans can choose to invest in products other than TDFs, these funds continue to gain popularity, particularly among younger 401(k) plan participants, because of their ease of use and ability to help individuals stay on track to achieve their long-term investing goals.

Making greater use of TDFs in India, especially for individuals early in their careers, can help direct retirement savings into growth-oriented assets at a time when investors have a greater capacity to take on market variability. Over time, investment in TDFs can lead to stronger asset accumulation and better meet individuals' long-term retirement needs.