

AUM SOARS TO ALMOST ₹20KCR With rich equity valuations & gold rally, investors are booking profits in these asset classes and reallocating to arbitrage schemes

Income Plus Arbitrage Fund of Funds Become Toast of the Affluent

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Mumbai: Wealthy investors and family offices are flocking to Income Plus Arbitrage Fund-of-Funds (FoFs), drawn by its tax-efficient structure that allocates just under 65% to fixed income and the remainder to equity arbitrage strategies.

Assets under management in this fund category have surged to ₹19,919 crore as of August 31 after a budget announcement in February eased tax norms for Fund of Funds (FoFs).

In Income Plus Arbitrage Funds-of-Funds, returns are treated as long-term capital gains if held for more than 24 months and taxed at 12.5%. This has encouraged affluent investors to use these schemes for their debt allocation.

“Valuations in equity are rich and gold has run up by 52% in the last one year. This is leading to many investors booking profits in these asset classes and reallocating to income and arbitrage schemes as a part of their debt allocation for tax efficiency,” says Vishal Dhawan, founder, Plan Ahead Wealth Advisors.

Funds are betting that the 65:35 mix of

Asset Watch

Scheme	Assets Under Management (₹ cr)
Kotak Income Plus Arbitrage Omni FOF	5,861
SBI Income Plus Arbitrage Active FOF	2,005
DSP Income Plus Arbitrage Omni FoF	1,662
ICICI Pru Income plus Arbitrage Active FOF	1,631
HDFC Income Plus Arbitrage Active FOF	1,618



AUM as of August 31, 2025

SOURCE: Accord Fintech, Compiled by ETIG database

debt and arbitrage could deliver higher returns with tax efficiency compared with a pure debt or arbitrage scheme over a 2- to 3-year period. They also note that these FoFs score over fixed deposits if held for two years, since gains are taxed at 12.5% versus income tax slab rates that can go up to 42.74% for high-income investors.

Fund managers said the category offers more flexibility than traditional fixed income schemes, which are bound by category mandates.

“This scheme allows the fund manager to deploy money across the yield curve and can aim to deliver alpha of 50 to 100 basis

points over corporate bonds in the long term,” says Shriram Ramanathan, CIO—Fixed Income, HSBC Mutual Fund.

Most fund houses invest in their in-house debt schemes, though a few, such as Axis, Franklin and Edelweiss, also allocate to debt funds managed by other asset managers.

Fund-of-fund schemes are, however, not for the cost-conscious as investors pay expenses at both the FoF and underlying scheme levels, making them costlier than plain-vanilla debt or arbitrage funds. Over time, this higher expense burden eats into post-tax returns.