YOUR MONEY

EQUITY SAVINGS FUNDS

Equity savings funds: FD plus returns, modest risks

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A comparison of April and May mutual fund inflows reveals an interesting pattern. Of the 42 categories for which data are available from the Association of Mutual Funds in India (Amfi), only five recorded a positive percentage change in May over April. Two of them are hybrid categories, suggesting that investors may be moving towards steadier products amid market volatility. Let us focus on equity savings funds, the larger of the two: The category has 24 schemes and assets under management of ₹49,194 crore.

How they work

Equity savings funds invest in equity, arbitrage, and debt. "They must maintain a minimum gross equity exposure of 65 per cent. Their net equity exposure, after hedging, must remain in the 15-40 per cent range," says Nilesh D Naik, head of mutual funds, Share.Market by PhonePe. The arbitrage portion helps reduce risk by lowering the net equity exposure.

Lower drawdowns, tax edge

Equity savings funds usually suffer much lower drawdowns than pure equity funds. "The drawdown depends on the net equity exposure of individual funds," says Naik. Anand K Rathi, co-founder, MIRA Money, points out that the equity portion adds to returns when markets perform well.

The tax treatment of equity savings funds makes them appealing, especially to investors in higher income-tax brackets. They are treated as equity-oriented funds for tax purposes. "Long-term capital gains (LTCG), which apply when investors hold them for more than one year, are taxed at 12.5 per cent. Short-term capital gains (STCG) apply when investors hold them for up to one year. STCG is taxed at 20 per cent," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

Do not expect full equity upside

These funds do not offer the full upside of equities. "That is because their open equity exposure remains limited," says Naik. Rathi adds that they can deliver low or even negative returns when equity markets perform poorly.

Recent return trend

Equity saving funds	AUM (₹ cr)	Return (%) 1-year	3-year	5-year
ICICI Prudential	16,732.9	2.9	7.8	7.7
Kotak	10,108.2	5.5	11.0	10.5
HDFC	5,643.8	2.7	9.4	8.9
SBI	5,642.7	3.0	10.0	8.8
DSP	3,478.2	2.7	9.5	8.5

Returns are for direct plans and are annualised for periods over one year. Returns as on June 12, 2026. AUM as on May 31, 2026

Source: Value Research

Who should consider them

Investors with a conservative-to-moderate risk profile, who want stability in the portfolio but can accept some volatility, may consider these funds. "They suit investors who want better returns than FDs can offer," says Rathi. Investors should have a minimum three-year investment horizon.

Who should stay away

Highly conservative investors and senior citizens should avoid equity savings funds. "Investors who expect a definite 6-7 per cent return may be disappointed," says Rathi.

Those with a very short investment horizon of, say, one year, should also avoid this category. Those focused on long-term wealth creation, who have a five- to 10-year horizon, can earn better returns in other products.

Should you enter now?

Over the past couple of years, the equity portion has not generated meaningful returns. "This has dragged down the returns earned by the fixed-income and arbitrage portions," says Rathi. Investors may enter with a three-year horizon. "Equity market performance may improve, and the equity portion could act as a return booster over the next three years," says Rathi.

How to select a fund

Use rolling returns to assess performance consistency. "Also check risk-adjusted return metrics such as the Sharpe ratio," says Dhawan.

Check the actual percentage allocation to equity. "Higher equity exposure can boost returns, but it can also hurt returns when equities perform poorly," says Dhawan. Also check market-cap allocation. A higher mid- and small-cap exposure may require a longer horizon. "Check the credit quality and modified duration of the debt portion to assess risks," says Dhawan.

What existing and new investors should do

Existing investors should revisit why they entered the category. "Poor one-year returns alone should not lead to stoppage of systematic investment plan (SIP) if the investment was meant for goals two to three years away," says Dhawan. Those who need money soon may move to pure liquid or arbitrage funds. New investors should recognise that these funds contain some unhedged equity exposure and should be comfortable with some volatility. "Staggered strategies can further control risk," says Dhawan.