MFs set sights on dormant balanced hybrid category

SBI MF, Kotak MF line up launches; ICICI Pru rolls out plan

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Mumbai, 21 July

Balanced hybrid funds, the smallest mutual fund (MF) category with assets of just over ₹1,000 crore, are set for a revival as fund houses line up new launches following a key regulatory change by the Securities and Exchange Board of India (Sebi). ICICI Prudential MF has recently rolled out a scheme in the category, while SBI MF and Kotak MF have received regulatory approvals and are expected to launch their offerings soon.

The category had remained on the sidelines since Sebi's 2017 scheme categorisation exercise, which required fund houses to choose between launching an aggressive hybrid fund and a balanced hybrid fund. Most fund houses opted for aggressive hybrid schemes as they maintain at least 65 per cent equity exposure, allowing them to qualify as equity-oriented funds for tax purposes. Balanced hybrid funds, on the other hand, invest 40-60 per cent each in equity and debt, do not use arbitrage to raise equity exposure, and are, therefore, taxed as non-equity funds.

The tax disadvantage has, however, narrowed following the 2024 overhaul of capital gains taxation. Long-term capital gains on balanced hybrid funds are now taxed at 12.5 per cent after a two-year holding period, aligning the tax rate with equity funds, although the qualifying holding period is longer than the one year required for equity schemes.

While the tax disadvantage had eased, fund houses were still unable to launch balanced hybrid funds as most already offered aggressive hybrid schemes. That changed earlier this year after Sebi allowed asset management companies (AMCs) to offer both categories.

Industry participants said the category offers a distinct proposition within the hybrid fund universe despite appearing similar to balanced advantage funds (BAFs). Unlike BAFs, where fund managers have wide discretion to alter equity exposure based on market conditions, balanced hybrid funds are required to maintain equity and debt allocations within a narrower 40-60 per cent range, resulting in a more predictable asset mix.

"The advantage of the new balanced hybrid funds is that the asset allocation mix is in a much tighter range of 40-60 per cent, thereby giving investors a far more balanced exposure than BAFs where the range can be much larger and fund managers have far more discretion. That can work well when the asset allocation decision is right, but can also backfire if the calls go wrong," said Vishal Dhawan, founder & chief executive officer (CEO), Plan Ahead Wealth Advisors.

Roshan Chutkey, senior fund manager at ICICI Prudential AMC, said balanced hybrid funds are designed for investors seeking long-term equity participation while moderating portfolio volatility through debt exposure. "In a moderate-return environment, this balanced approach can provide a smoother investment experience, especially for first-time investors," he said.

The pecking order

Balanced hybrid funds poised to grow after years in the shadows

Hybrid fund categories	No. of schemes	AUM (₹ cr)
Arbitrage fund	39	3,44,452
Balanced advantage fund	36	3,20,782
Aggressive hybrid fund	29	2,57,426
Multi asset allocation fund	34	2,13,858
Equity savings fund	24	53,442
Conservative hybrid fund	18	29,705
Balanced hybrid fund	2	1,037

Source: Amfi