

Hybrid funds are booming: Why some advisers prefer them while others remain cautious

BY Sanket Dhanorkar, Published on: 28th September 2026

Hybrid strategies have caught investors' fancy in recent years. These funds, typically wrapping two or more asset classes into one convenient package, have gone mainstream. As of July 2026, they manage a meaty Rs.11.67 trillion in assets—13.6% of the total mutual fund industry assets, according to data by the Association of Mutual Funds in India (AMFI). That is up 108% from August 2023. Nearly 17% of individual mutual fund (MF) assets reside in hybrid funds. Five out of the top 10 non-debt schemes by assets in the country belong to this space. Hybrid SIFs have also emerged as the preferred choice in the rapidly growing specialised investment funds (SIF) segment.

Even as the hybrid basket expands, advisers remain divided—some see specific use cases, while others stay away.

Debt proxies

For many advisers, hybrid funds have simply replaced another asset class—fixed income. This shift can be traced to one event: the unfavourable change in taxation of debt funds since Budget 2023. In debt funds, all gains are now taxed at the investor's slab rate. No indexation benefit is allowed, which previously limited tax liability to inflation-adjusted gains. This sparked an exodus to more tax-friendly avenues, and advisers found an escape path in hybrids. Most hybrid funds are taxed as equity funds. So gains realised after a year of holding get taxed at 12.5%, with exemption up to Rs.1.25 lakh per financial year.

Deepesh Raghaw, Founder, PersonalFinancePlan.in, says he uses hybrids more as a “proxy for debt”, not as an integral part of portfolio construction. “I started using hybrids after debt taxation became adverse,” he says. He prefers dynamic asset allocation funds or balance advantage funds for this purpose.



Ravi Saraogi, Founder, Samasthiti Advisors, follows the same approach. “Whenever we want to give debt allocation to an investor, let's say in their retirement portfolio, we do it through a hybrid product because plain-vanilla debt mutual funds will attract (income tax) slab-rate taxation.”

The post-tax returns also matter, say advisers. “Hybrid structures help clients in higher income brackets protect their net yields,” points out Vishal Dhawan, Founder and Chief Executive Officer, Plan Ahead Wealth Advisors. For short- to medium-term liquidity needs ranging from three months to a year, Dhawan prefers arbitrage funds as a stable, low-risk alternative for investors in the highest tax bracket by providing equity-oriented tax treatment on liquid capital. Over 2-3 year time frames, he uses income plus-arbitrage funds as a tax-efficient replacement for traditional fixed income, while lowering the overall tax burden on accrued returns.

Note: “When you use hybrid products, the investor or the adviser is outsourcing asset allocation decisions to the fund manager. So they will lose that control. “Hybrid mutual funds' assets have ballooned”.

Lowering portfolio risk

Many advisers harness hybrid funds for a very specific role in the portfolio. This is to lower the overall risk of the investor's portfolio. Hybrid funds are perceived as providing a degree of stability to the portfolio, aided by presence across two or more uncorrelated asset classes. Over longer time frames, they tend to show much lower volatility than pure equity funds. This stability can anchor an equity-heavy portfolio when market conditions turn hostile. Kalpesh Ashar, Founder, Full Circle Financial Planners and Advisors, says, “For a normal long-term equity-led portfolio, we suggest hybrid funds to nullify the risk of equity when a lot of uncertainty abounds.” He advocates multi-asset funds and balanced advantage funds, depending

on individual risk appetite and existing assets. Typically, he recommends 40-50% in large caps, 20% in hybrids, and the rest in mid- or small-cap funds.



KALPESH ASHAR, Founder, Full Circle Financial Planners and Advisors Note: “For a normal long-term equity-led portfolio, we suggest hybrid funds to nullify the risk of equity when a lot of uncertainty abounds.”

For some, hybrids serve as the ideal gateway for first-time investors. Rohit Shah, Founder and CEO, GYR Financial Planners, says hybrids are a decent intermediate solution. “They can work as a mezzanine floor—for someone who can’t sit on the ground floor of pure fixed income but isn’t ready for the first floor of full equity either. They also suit beginners and small investors taking their first steps, where simplicity matters more than fine-tuning.”

Tarun Birani, Founder and CEO of TBNG Capital Advisors, uses hybrids to build a good first experience. “The hybrid’s job is finite and specific: carry the investor through years one to three without them quitting. That is precisely the window where equity is most likely to hand someone a reason to stop, and it is the window where hybrids most reduce that risk.”

Birani backs his approach with numbers.

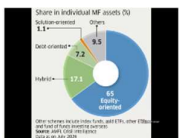
He looked at 10 years of monthly returns to August 2026 across the main fund categories, and measured every rolling one-, three-, and five-year window an investor could have entered. Three distinct pictures emerge. Over rolling one-year windows, the spread in experience is enormous. For a small-cap fund investor, one entry point in four left them staring at a loss 12 months later. A large-cap index investor: roughly one in six. In an aggressive hybrid fund, the positive outcomes rose to over nine in ten; in equity savings funds, to around 96%; and in arbitrage funds, every single window was positive.

Over rolling three-year windows, the gap narrows but does not close. Aggressive hybrid funds and equity savings funds were positive in every window. The small-cap category was still negative in about 7% of them, with a worst case of roughly minus 7% annualised over three full years. That is a long time to hold something and be behind.

“The point is not the return; it’s that the client gets to year three with the conviction intact and can then build equity exposure from a position of confidence rather than fear,” insists Birani.

However, he maintains, the purpose of a hybrid changes at later stages. “Hybrids are used to align the portfolio with a specific desired outcome—approaching a goal where sequence risk matters, an income requirement, a risk appetite that has shifted with age or circumstance,” Birani adds.

Dhawan also finds hybrids ideal for navigating goal maturity. “Hybrid mechanics manage sequence-of-returns risk during market drawdowns, removing the emotional challenges and capital gains taxes associated with manual rebalancing.” Sequence of returns risk is the danger of poor market returns or losses occurring in the last few years of your target withdrawal date.



Risk-return trade-off

But some advisers are sceptical about hybrid funds’ long-term utility. Shah feels hybrid funds smoothen the ride, but they can quietly cost you the returns.

“Anything designed to dampen volatility tends to dampen long-run returns along with it—if a fund holds, say, 25% in debt, then over 15-20 years roughly a quarter of your money isn’t compounding at equity rates.”

This is a valid concern for long-term portfolios. In the earlier study, one- and three-year windows showed that hybrids remained positive, even as some other categories had negative outcomes. Over rolling five-year windows, everything flips, Birani points out.

Every category was positive in every window, and the ranking inverts. Small-cap funds' median five-year stretch compounded at over 24% a year, comfortably ahead of the median outcome from any hybrid. But Birani qualifies this data point with a simple observation: "Over five years and beyond, a hybrid costs the investor return versus staying in equity. But the hybrid is what makes staying likely in the first place." Hybrids materially reduce the number of moments where quitting feels like the rational choice—and that, not any return figure, is the argument for the category, Birani says.

Five of the country's top 10 MF schemes are hybrids

Who controls your asset allocation?



Asset allocation is highly personal. But hybrid funds offer a one-size-fits-all approach that may not suit everyone's risk profile. Advisers say tailored asset allocation better serves investors' goals.

Shah says, "Hybrids are harder to manage from a rebalancing and fixed-income duration standpoint, since you inherit the fund manager's calls on both instead of setting your own." Hybrids with the same label take varying degrees of equity exposure. Within the fixed-income allocation, a fund may pursue an accrual or duration strategy, or switch between the two. Inevitably, the investor's risk exposure is left at the fund's discretion. This leads to disparate outcomes.

Saraogi argues, "The disadvantage is that when you use hybrid products, the investor or the adviser is outsourcing asset allocation decisions to the fund manager. So they will lose that control in terms of how much goes into equity, debt and gold." However, he sees hybrids' tax efficiency as a worthwhile trade-off if carefully managed.

Containing downside is hybrid's primary job



Are newer hybrids worthy?

In recent years, newer hybrid solutions have entered the picture. Hybrid ETFs are being launched, offering rules-based strategies combining equity and debt for long-term investing.

Hybrid SIFs have also been rolled out and have already amassed assets of Rs.21,390 crore within a year, dominating early SIF inflows. These have quickly demonstrated resilient performance amid testing market conditions. These replicate the investing strategies of hybrid funds, but use a wider array of derivatives tools to deliver better risk-adjusted outcomes. Some advisers find the proposition interesting. Birani reckons that combined with the post-tax treatment available on the equity-oriented variants, the risk-adjusted proposition in hybrid SIFs is real, especially for investors who want some equity exposure but not the full dose. "The genuine difference from a conventional hybrid is the ability to run short positions, and in the March 2026 correction the better positioned funds in this category fell a small fraction of what the index did." Dhawan says high-bracket investors with a 2-3-year horizon can consider income-plus-arbitrage funds or hybrid SIFs, depending on their comfort with newer structures. But many advisers remain unconvinced. Ashar prefers traditional hybrids, while Raghaw wants a longer track record before assessing hybrid SIFs.

Finding the right fit

Each hybrid category answers a different underlying need. Start by understanding your need and risk profile, Shah says. "The focus has to move away from picking the perfect product towards the things that add value—the right asset allocation, a higher savings rate, and time spent firming up your actual goals."

Dhawan suggests investors can narrow down the choices by applying a three-step decision framework based on their timeline, tax status, and life stage: First, filter by holding period and tax bracket. Second, factor in goal urgency and market drawdown tolerance. Finally, align the vehicle with overall life stage and current asset allocation. Viewing hybrids through advisers' lens offers important lessons for investors: Not every hybrid suits every investor. For the asset manager, it's just another product to fill its basket. Your paths may overlap for certain periods, for specific reasons. Or they may not intertwine at all.

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