Aggressive Hybrid Funds

What are Hybrid Funds?

Hybrid funds are mutual fund schemes that invest in multiple asset classes, primarily equity and debt. Some hybrid funds also invest in other asset classes like Gold, real estate (REITs) etc. The purpose of asset allocations in hybrid funds is to balance risk and return. Different types of hybrid funds have different risk profiles.

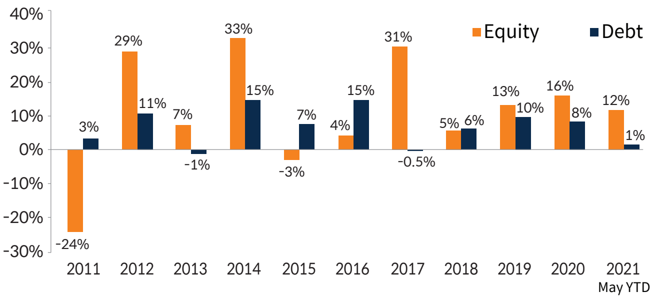
What are Aggressive Hybrid funds?

AggressiveHybrid Funds or Equity Oriented Hybrid Funds are hybrid mutual fund schemes with a larger allocation to equity or equity related securities. As per SEBI categorisation circular, aggressive hybrid funds must invest 65% to 80% of their assets in equity or equity related securities. Aggressive hybrid funds must invest 20% to 35% of their assets in debt and money market instruments.

How do Aggressive Hybrid funds work?

- Aggressive hybrid funds work on the principle of asset allocation. Different asset classes have different risk profiles. By diversifying investments across equity and debt asset classes, these schemes aim to reduce risk and at the same generate returns for investors over sufficiently long investment horizons.

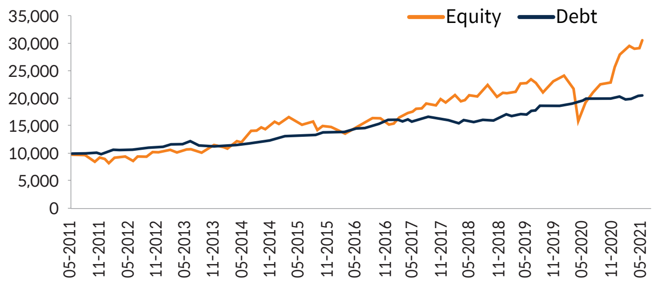
The chart below shows the annual returns of Nifty 50 TRI representing equity and Nifty 10 year benchmark G-Sec Index representing debt. You can see that debt outperformed equity during several periods over the last 10 years. While equity gave better returns over the tenure of the investment, debt would have limited downside risks in the portfolio.



Source: NSE, Advisorkhoj Research, 31st May 2021. Equity: Nifty 50 TRI; Debt: Nifty 10 year Benchmark G-Sec Index. Disclaimer: Past Performance may or may not be sustained in the future.

- The chart below shows the growth of Rs 10,000 investments in Nifty 50 TRI (representing equity) and Nifty 10 year benchmark G-Sec index (representing debt) over the last 10 years ending (31st May 2021). While equity gave better returns over the tenure of the investment, debt has much lower volatility. Investing in an asset mix of equity and debt will balance risk and returns in the portfolio.

Growth of Rs 10,000 invest in Nifty 50 TRI and Nifty 10 year benchmark G-Sec Index over 10 years



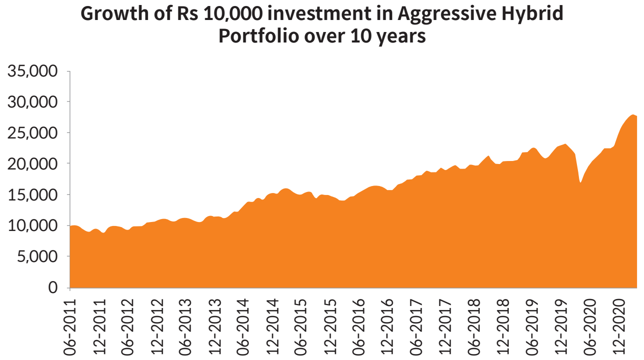
Source: NSE, Advisorkhoj Research, 31st May 2021. Equity: Nifty 50 TRI; Debt: Nifty 10 year Benchmark G-Sec Index. Disclaimer: Past Performance may or may not be sustained in the future.

- The fund managers of Aggressive Hybrid Fund rebalances the asset allocation regularly. Rebalancing is an important part of managing asset allocations since performance of different asset classes varies significantly in different market / interest rate conditions. If asset allocation is not rebalanced regularly, your actual asset allocation can deviate considerably from your target asset allocation. Regular rebalancing can also produce potentially superior risk adjusted returns.
- Unlike other hybrid fund categories, hybrid funds maintain substantially high (minimum 65%) equity allocations across all market conditions. This makes aggressive hybrid funds more volatile than other hybrid funds. However, historical data shows that equity as an asset class usually outperform other

asset classes over long investment tenures. Therefore, over long investment tenures, aggressive hybrid funds may outperform other hybrid fund categories.

Point to point returns of a model aggressive hybrid portfolio

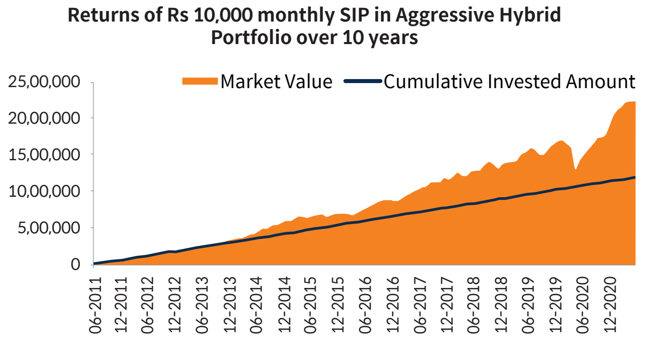
The chart below shows the performance of Rs 10,000 of a portfolio comprising of Nifty 50 TRI (as a proxy for equity as an asset class) and Nifty 10 year benchmark G-Sec Index (as a proxy for debt as an asset class) over the last 10 years (ending 31st May 2021). The equity allocation of the portfolio is 65%, while the debt allocation is 35%. The value of the portfolio as on 31st May 2021 would have been Rs 29,351 and CAGR over the last 10 years would have been 11.4%.



Source: NSE, Advisorkhoj Research, 31stApril 2021. Asset Allocation: Nifty 50 TRI 65%; Nifty 10 year benchmark G-Sec Index 35%. Disclaimer: Past Performance may or may not be sustained in the future.

SIP returns of a model aggressive hybrid portfolio

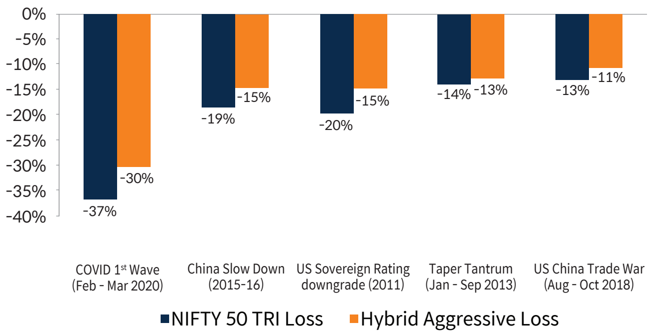
The chart below shows the performance of a monthly SIP of Rs 10,000 in a portfolio comprising of Nifty 50 TRI (as a proxy for equity as an asset class) and Nifty 10 year benchmark G-Sec Index (as a proxy for debt as an asset class) over the last 10 years (ending 31st May 2021). The SIP date has been assumed to be 1st of every month or the next business day (if the 1st day of the month is a holiday). As before, the equity allocation of the portfolio is 65%, while the debt allocation is 35%. With a cumulative investment of Rs 12 lakhs, you could have accumulated a corpus of Rs 23.7 lakhs (as on 31stMay 2021). The annualized SIP returns (XIRR) of this hybrid portfolio over the last 10 years was 13%.



Source: NSE, Advisorkhoj Research, 31st May 2021. Asset Allocation: Nifty 50 TRI 65%; Nifty 10 year benchmark G-Sec Index 35%. Disclaimer: Past Performance may or may not be sustained in the future.

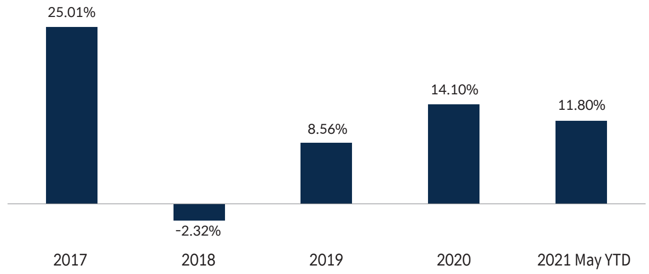
Smaller Drawdowns

The chart below shows how Nifty 50 TRI and portfolio comprising of Nifty 50 TRI (65%) and Nifty 10 year benchmark G-Sec Index (35%) in the 5 largest drawdowns in the last 10 years. You can see that an aggressive hybrid portfolio can limit downside risks in highly volatile markets.



Source: NSE, Advisorkhoj Research, 31st May 2021. Asset Allocation: Nifty 50 TRI 65%; Nifty 10 year benchmark G-Sec Index 35%. Disclaimer: Past Performance may or may not be sustained in the future.

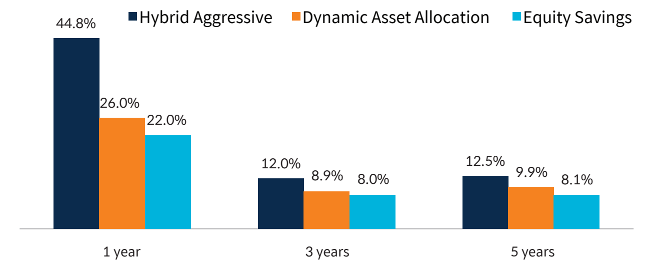
Annual Category Average Returns – Aggressive Hybrid Funds



Source: Advisorkhoj Research, As on 31stMay 2021. Disclaimer: Past performance may or may not be sustained in the future.

Aims to give potential returns over long investment tenures

Historical data shows that aggressive hybrid funds have the potential to outperform other equity oriented hybrid funds over sufficiently long investment horizons. However, investors should understand that aggressive hybrid funds can be more volatile than other hybrid fund categories. You should invest according to your risk appetite and consult with your financial advisor if required.



Source: Advisorkhoj Research, As on 25th June 2021.Returns are category averages. Returns over 1 year are annualized (CAGR) Disclaimer: Past performance may or may not be sustained in the future.

Taxation of Aggressive Hybrid funds

One of the major benefits of Aggressive Hybrid Funds is taxation. Aggressive Hybrid funds are taxed as equity funds. Short term capital gains (investment holding period of less than 12 months) are taxed at 15% (plus applicable cess and surcharge). Long term capital gains (investment holding period of 12 months or more) are tax exempt up to Rs 1 lakh in a financial year and taxed at 10% (plus applicable cess and surcharge) thereafter.

Who should invest?

- Investors who are looking primarily looking for capital appreciation income and also income from their investments.
- Investors with moderately high risk appetites.
- Since hybrid aggressive funds are less volatile than pure equity funds, they may be suitable for first time or new investors.
- Investors with tenures of at least 3 years. Longer the investment tenures in these funds, higher is the wealth creation potential from your investments.
- Investors should consult with their financial advisors if hybrid aggressive funds are suitable for their investment needs.