



**EDELWEISS**  
MUTUAL FUND



# What are multi-asset allocation funds?

As 2023 moved into summer, Shiksha, who had been investing religiously over the last two years, realised that the market volatility which had started in 2022 was showing no signs of easing up. Triggered by aspects such as rising inflation, increasing geopolitical risk, and an uptrend in interest rates the equity market, as well as equity-linked mutual funds she invested in, were indicating negative returns on a monthly basis, prompting her to consider other investment options in the mutual fund realm. This is when she ventured upon multi-asset allocation funds, an option which was slowly gaining popularity amid the uncertain market. While her portfolio already consisted of a hybrid fund, debt fund, equity fund, and passive debt funds she needed an addition which would help her portfolio manage volatility optimally and this is where multi-asset allocation funds came into the picture.

## Understanding multi-asset allocation funds

As the name suggests, these schemes involve a combination of asset classes under a single umbrella, with the distribution of assets and their composition varying in line with individual investor requirements. More specifically, these funds invest in at least three asset classes with a minimum allocation of at least 10% in each of the three asset classes. With a focus on optimal asset allocation, multi-asset allocation funds are designed with the aim of providing a steady income and capital appreciation to investors like Shiksha, by facilitating a well-balanced portfolio of investments. Through such a scheme, Shiksha, and investors like herself, would be able to invest in an array of assets, from equity and debt instruments to equity-oriented schemes as well as gold and gold-oriented assets. She had the ability to invest up to 80% of her corpus in either of the asset class, helping her tailor it to match the market scenario. These funds are further divided into risk tolerance funds, which are focused on your underlying risk appetite and target-date funds, which are aligned with the underlying time horizon.

## Purpose of multi-asset allocation funds

Multi-asset allocation funds have a number of purposes and can offer you various benefits, as indicated below.

- **Enhanced diversification:** Such schemes can help you enjoy enhanced portfolio diversification since they act as a single window for asset allocation. The scheme's ability to diversify in line with market scenarios and investor profiles empowers you to park your funds in highly a personalised and diversified instrument, without needing to invest in multiple schemes.
- **Compelling risk-return potential:** Since multi-asset allocation funds invest in diverse asset classes, in line with your requirements, they can potentially unlock a compelling risk-return ratio for you. The underlying diversification enables you to enjoy better hedging against risks, while also allowing you to participate in the growth of various asset classes.

### Advantages to consider

Multi-asset allocation is a strategy that enables you to invest in a variety of asset classes with different levels of risk and reward, thus helping to reduce risk and achieve consistent returns over different market cycles. These funds are capable of offering automatic portfolio rebalancing to help you navigate market volatility and adjust your investments accordingly, making it a suitable option for volatile markets. For those who cannot afford to create a custom investment portfolio with a professional, investing in multi-asset allocation funds is a convenient option as these schemes offer a well-balanced investment option consisting of a variety of asset classes.

### Should you invest in multi-asset allocation funds?

As an investor, your investment decisions are based on your personal profile. You should consider investing in such schemes if you are looking to diversify your portfolio by creating exposure to multiple asset classes through a single investment. Further, the diversification offered by multi-asset funds can also help you potentially lower the overall risk of your portfolio. This is especially true for volatile times such as the one we are currently experiencing, since the underperformance of certain assets will be evened out by the good showing indicated by the other assets in the portfolio.

With these aspects in mind, Shiksha decided to augment her portfolio with a multi-asset allocation fund. If you feel that your profile matches the features described here, you should also consider boosted diversification through this option.

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