



Aggressive

Hybrid

Mutual Funds

What Is an Aggressive Hybrid Fund? Meaning And Advantages

The word 'aggressive' can be polarising. It either draws you in or sends you running. It can signal higher risk, especially in the world of investing. But when paired with the word 'hybrid', the picture may seem to change. Hybrid mutual funds offer a balance by investing in both equity and debt instruments. They can potentially strike a blend of growth and stability. So, what exactly is an aggressive hybrid fund? What does its risk profile look like, and who should consider investing in it? Let's find out.

What is an aggressive hybrid fund?

An aggressive hybrid mutual fund is a category of hybrid funds that aims to strike a balance between high and moderate risk. As per the Securities and Exchange Board of India (SEBI) master circular dated June 27, 2024 under **Categories of Schemes, Scheme Characteristics and Type of Scheme (Uniform Description of Schemes)**, these funds are required to:

- Invest 65% to 80% of their assets in equity and equity-related instruments
- Allocate 20% to 35% to debt instruments

This equity-heavy allocation gives the fund potential for capital appreciation, but also increases risk, which is why these funds are referred to as aggressive. On the other hand, the relatively lower debt component helps reduce overall volatility.

Aggressive hybrid funds may be less risky as compared to pure equity scheme. However, they can still carry a high risk due to their equity exposure.

What are the other types of hybrid funds, and how do aggressive hybrid funds differ?

Hybrid mutual funds are designed to offer a mix of equity and debt to help you balance risk and return. As per SEBI's categorisation, there are several types of hybrid funds, each with a defined asset allocation range. Let's look at the main types and see how aggressive hybrid funds differ:

Type of hybrid fund	Equity allocation	Debt allocation
AggressiveHybrid Fund	65%–80%	20%–35%
ConservativeHybrid Fund	10%–25%	75%–90%
Balanced Hybrid Fund	40%–60%	40%–60%
Dynamic Asset Allocation or Balanced Advantage Fund	Investment in equity/ debt that is managed dynamically	An open ended dynamic asset allocation fund
Multi Asset Allocation Fund	Minimum 10%	Varies
	each in all three asset classes	An open ended scheme investing in __, __, ____ (mention the three different asset classes)
ArbitrageFund	Minimum 65%	Varies
		An open ended scheme investing in arbitrage opportunities
Equity SavingsFund	Minimum 65% in equity, 10% in debt, with use of derivatives	Varies
		An open ended scheme investing in equity, arbitrage and debt

What are the key advantages of aggressive hybrid funds?

Here are some key benefits of investing in aggressive hybrid funds:

- **No lock-in period:** Aggressive hybrid mutual funds are open-ended. So, you can redeem your investment anytime. They do not have a lock-in period and can be liquidated quickly.
- **Automatic rebalancing:** Aggressive hybrid funds automatically adjust the allocation between equity and debt as per prevailing market conditions. While they maintain SEBI's mandated range of 65 to 80% in equity and 20 to 35% in debt, the fund manager shifts the weights within that range to manage risk and optimise returns.
- **Built-in diversification:** With exposure to both equity and debt, these funds offer automatic diversification. This helps reduce overall portfolio volatility and provides balanced investment opportunity although it invests more in equity.
- **Power of compounding:** Like other mutual funds, aggressive hybrid funds benefit from compounding. The returns earned on your investments start generating their own returns over time. This can enhance your overall aggressive hybrid fund returns, especially when invested for the long term.
- **Rupee cost averaging (via SIPs):** If you invest through a Systematic Investment Plan (SIP), you can take advantage of rupee cost averaging. The average cost per unit may be lower over time, as you buy more units when prices are low and fewer when prices are high.

Who should consider investing in an aggressive hybrid fund?

An aggressive hybrid mutual fund can be suitable for the following types of investors:

- **New investors:** If you are just starting your investment journey or are particularly new to equities, this fund can be a smart choice. It allows you to experience equity market growth without taking on the full risk of a pure equity fund, thanks to the built-in debt component.
- **Investors with a medium to long-term horizon:** Given the fund's significant equity exposure, it can be well-suited for investors with a moderate to long-term outlook of ideally five years or more. This allows the fund to ride out short-term market volatility.
- **Diversification seekers:** If you are looking for automatic diversification, the fund gives you the best of both worlds. You get exposure to equity for growth and debt for stability. It simplifies your investment while eliminating the need to manage multiple funds separately.

How are aggressive hybrid funds taxed?

Aggressive hybrid funds are taxed as equity mutual funds because they invest between 65% to 80% of their assets in equity and equity-related instruments. If the units are held for more than a year, your gains are classified as Long-Term Capital Gains (LTCG) and taxed at 12.5%. If the units are sold within a year, your profits are considered Short-Term Capital Gains (STCG) and are taxed at 20%.

Conclusion

An aggressive hybrid fund offers a balanced exposure to both equity and debt. While the equity component offers the potential for returns, the debt allocation helps safeguard your money from market volatility. You can invest in them without taking on the full risk of a pure equity fund. These funds also provide built-in diversification. You can consider investing in them if you are seeking a moderate to high risk option.