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CHOOSE BETWEEN AGGRESSIVE & BALANCED ADVANTAGE FUNDS BASIS YOUR RISK APPETITE

Hybrid funds built for volatility

● If interest rates fall, bond component of such funds will benefit

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AS THE MARKETS have turned volatile, investing in hybrid funds can deliver better risk-adjusted returns through diversification. Investors with a moderate-to-high risk appetite should opt for aggressive hybrid funds. And those with low risk appetite, should look at balanced advantage funds.

Aggressive hybrid funds invest 65-80% in equities and the rest in debt. On the other hand, balanced advantage funds dynamically adjust equity and debt allocations based on market conditions. These funds increase equity exposure during bullish markets and reduce it during bearish phases, optimising returns while managing risk.

TOP PERFORMERS

Returns in (%)

Balanced Advantage Funds

	1-year		3-year		5-year
Axis MF	14.0	HDFC MF	19.4	HDFC MF	19.0
WhiteOak Capital	13.1	SBI MF	11.8	Baroda BNP Paribas MF	15.1
HDFC MF	11.8	Bank of India MF	11.6	Edelweiss MF	14.1
Franklin India	11.6	ICICI Prudential MF	11.2	Tata MF	12.3
Quant MF	11.4	Baroda BNP Paribas MF	11.0	ICICI Prudential MF	12.3

Aggressive Hybrid Funds

	1-year		3-year		5-year
Invesco MF	18.9	JM Financial MF	18.6	Bank of India MF	24.2
Kotak MF	15.7	ICICI Prudential MF	16.5	JM Financial MF	22.7
JM Financial MF	15.5	Edelweiss MF	14.5	Quant MF	22.4
Bank of India MF	14.9	UTI MF	14.0	ICICI Prudential MF	20.2
HSBC MF	14.8	Bank of India MF	13.5	Mahindra Manulife MF	17.7

All regular growth option; Source: Fisdom Research



Diversified approach

The benchmark Sensex has lost over 9,000 points since the peak in September last year. Given the expected market volatility in the year, Nirav Karkera, head, Research, Fisdom, recommends investors to prioritise exposure to balanced advantage funds as they offer fund managers the flexibility to allocate across equity, debt, and arbitrage strategies to capitalise on market movements. "Rather than selecting aggressive hybrid funds, allocating investments in two balanced advantage funds with distinct fund management approaches may add more value and enhance portfolio resilience," says Karkera.

However, Soumya Sarkar, co-founder, Wealth Redefine, AMFI registered mutual fund distributor, says in the current market scenario, a combination of aggressive hybrid funds and balanced advantage funds may be prudent. "Aggressive hybrid funds, with a higher equity allocation, can offer growth potential, while balanced advantage funds can provide flexibility and risk management," he says.

Benefit in case of rate cuts

If the Reserve Bank of India cuts interest rates, the bond component of hybrid funds stands to benefit significantly. When interest rates fall, bond prices typically rise because the yields on existing bonds, which may offer higher interest payments than newly issued ones, become more attractive to investors. "Lower rates drive bond prices higher, leading to capital appreciation for the debt portfolio," says Sonam Srivastava, founder, Wright Research.

Investors can benefit by investing in hybrid funds with significant debt exposure, as these funds not only capture gains from falling interest rates but also provide diversification and risk mitigation. Entering hybrid funds early in the rate-cutting cycle allows investors to maximise the dual advantage of potential bond price appreciation and equity market gains, especially if lower rates stimulate economic growth and corporate earnings.

In fact, as per the latest portfolio distribution, aggressive hybrid funds have allocated around 24% to debt, while balanced advantage funds hold about 25% in debt. The debt allocation comprises government securities and AAA-rated instruments. Karkera says these two key equity hybrid categories are fully equipped to capitalise on a rate cut, offering potential gains from bond price appreciation in addition to their equity exposure.

Investing horizon

For an investing horizon of up to two years, balanced advantage funds are more appropriate due to their dynamic asset allocation, which adjusts equity exposure (30–80%) based on market valuations, offering downside protection during corrections and capturing upside potential in rallies. "For horizons over two years, aggressive hybrid funds are well-suited as they maintain a fixed equity allocation (65-80%), providing higher growth potential while diversifying risk through debt exposure," says Puneet Sharma, CEO, Whitespace Alpha.

What to follow

It is important to align choices with market conditions and individual risk tolerance. While aggressive hybrid funds are suitable for those seeking long-term growth and willing to accept higher volatility, balanced advantage funds are ideal for stability.