

What Are Hybrid Funds? Meaning, Types & Key Considerations

15 May 2025

In the world of investing, hybrid funds have gained significant popularity due to their balanced approach, combining the features of equity and debt instruments. But what are hybrid funds, and how do they work? In this article, we will dive into the meaning, types, and key considerations of hybrid funds, providing you with a thorough understanding of these investment options.

Hybrid Fund Meaning: The Basics

Hybrid funds are a [type of mutual fund](#) that invest in a mix of asset classes, primarily equities (stocks) and fixed-income securities (bonds). These funds aim to provide investors with a balanced investment strategy, which can potentially reduce risk while offering higher returns compared to traditional debt funds. By diversifying across different types of assets, hybrid funds seek to capture the benefits of both equity and debt markets.

In simple terms, a hybrid mutual fund is designed to offer a combination of the growth potential of equities and the stability of bonds. The allocation between these asset classes can vary depending on the fund's objective and market conditions, making them a flexible investment option for investors.

Features of a Hybrid Fund

Hybrid funds come with several distinct features that make them a suitable choice for many investors:

1. Diversification

Since hybrid funds invest in both equities and debt, they provide diversification across different asset classes. This helps reduce the risk compared to investing in a single asset class, such as equities.

2. Balanced Risk-Return Profile

By combining equity and debt, hybrid funds aim to balance risk and return. The equity portion offers growth potential, while the debt portion provides for relative stability and income.

3. Flexible Allocation

Hybrid funds can be actively or passively managed. Active funds allow fund managers to adjust the allocation between equity and debt based on market conditions, while passive funds typically maintain a fixed allocation.

4. Suitable for Conservative Investors

Hybrid funds are suitable for those who want exposure to the stock market but prefer to mitigate risk by investing in safer debt instruments.

How Does a Hybrid Mutual Fund Work?

A hybrid mutual fund operates by investing a portion of its assets in equity securities and the remainder in fixed-income instruments like bonds, government securities, or other debt-related assets. The exact allocation between equity and debt depends on the specific type of hybrid fund and its investment strategy.

For instance, in a balanced hybrid fund, the fund manager may invest 60% in equities and 40% in debt instruments. In contrast, a conservative hybrid fund might invest 30% in equities and 70% in debt securities to minimize risk.

Types of Hybrid Mutual Funds

Hybrid mutual funds come in different categories, and each type has its unique characteristics. Here are some common types of hybrid funds:

Hybrid Mutual Fund Categories (SEBI Classification)

Sub-Category	Asset Allocation / Strategy
Conservative Hybrid Fund	10–25% Equity, 75–90% Debt – Focus on stability with limited equity.
Balanced Hybrid Fund	40–60% Equity & Debt – Balanced exposure to both assets.
Aggressive Hybrid Fund	65–80% Equity, 20–35% Debt – Higher equity for long term growth potential.
Dynamic Asset Allocation / Balanced Advantage Fund	0–100% in Equity or Debt – Fully flexible allocation.
Multi Asset Allocation Fund	Invests in 3+ asset classes; min. 10% each asset classes – Diversified approach.
Arbitrage Fund	Min. 65% in equity with arbitrage strategy – Low-risk equity returns.
Equity Savings Fund	Min. 65% Equity, 10% Debt + derivatives – Blends equity, debt & hedging.

Taxation Rules of Hybrid Mutual Funds

The tax treatment of hybrid funds depends on the asset allocation and the holding period. Here are the key taxation rules:

Hybrid Type	STCG (Now)	LTCG (Now)	Holding Period
Debt-Oriented ($\geq 65\%$ Debt)	Slab Rate	Slab Rate	NA
Equity-Oriented ($\geq 65\%$ Equity)	20%	12.50%	12 Months
Balanced ($35\% < \text{Equity} < 65\%$)	Slab Rate	12.50%	24 Months

Who Should Consider Hybrid Funds?

Hybrid funds are appropriate for investors who are looking for a balanced investment option that combines growth potential with risk reduction. Here are some types of investors who should consider hybrid funds:

- **First-Time Investors:** Hybrid funds provide a good entry point for those new to investing, as they offer diversified exposure to both equities and fixed-income assets.
- **Conservative Investors:** Investors who want to limit risk but still want some exposure to equities can benefit from hybrid funds, especially those with a higher allocation to debt.
- **Long-Term Investors:** Hybrid funds are suitable for investors who want a steady growth rate over the long term without taking on excessive risk.

How to Invest in a Hybrid Mutual Fund

Investing in a [hybrid mutual fund](#) is easy and can be done through the following methods:

- **Directly through AMCs:** You can invest directly with the [Asset Management Companies](#) (AMCs) that offer hybrid funds. This way, you can avoid paying distribution fees.
- **Through Online Platforms:** Several mutual fund platforms allow you to invest in hybrid funds, providing a seamless process to buy, redeem, and track your investments.
- **Through Financial Advisors:** If you are unsure about which hybrid fund to choose, a financial advisor can help you select the right fund based on your investment goals and risk tolerance.

Factors to Compare Before Picking a Hybrid Fund

When choosing a hybrid fund, consider the following factors:

- **Asset Allocation:** Check the percentage of the fund allocated to equities versus debt. Your choice should align with your risk tolerance and investment goals.
- **Fund Performance:** Review the past performance of the fund. While past performance is not indicative of future returns, it can give you an idea of how well the fund has managed different market conditions.

- **Expense Ratio:** The expense ratio reflects the cost of managing the fund. Lower expense ratios are usually preferable, as they can improve long-term returns.
- **Risk Profile:** Understand the risk associated with the fund, which is determined by the equity-debt ratio. Aggressive hybrid funds have higher risk than conservative hybrid funds.

Conclusion

In conclusion, hybrid funds are an excellent investment option for those looking to strike a balance between risk and reward. By offering exposure to both equity and debt markets, they provide investors with diversification, steady returns, and reduced risk compared to investing in a single asset class. Whether you are a first-time investor or a seasoned one looking for stability, hybrid funds can be a suitable choice.

FAQs

1. What is a hybrid mutual fund and how does it work?

A hybrid mutual fund is a type of mutual fund that invests in a mix of equity and debt securities. It works by diversifying investments across both asset classes, which helps in balancing risk and returns.

2. How many types of hybrid funds are there under SEBI rules?

Under SEBI rules, hybrid funds are classified into several types, including balanced funds, aggressive hybrid funds, conservative hybrid funds, dynamic asset allocation funds, and multi-asset allocation funds.

3. Are hybrid funds good for first-time investors?

Yes, hybrid funds are suitable for first-time investors as they offer a balanced approach to investing, combining equity and debt for reduced risk and stable returns.

4. Do hybrid funds guarantee lower risk than pure equity funds?

Yes, hybrid funds generally have a lower risk profile compared to pure equity funds due to their allocation to debt instruments, which provide stability.

5. What are the risks of investing in a hybrid fund?

The risks of hybrid funds include market risk (due to the equity portion) and interest rate risk (due to the debt portion). The risk level depends on the fund's asset allocation.

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Investors may consult their Financial Advisors and/or Tax advisors before making any investment decision.

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