Your balanced mutual fund scheme may become 'aggressive' soon. Should you worry?

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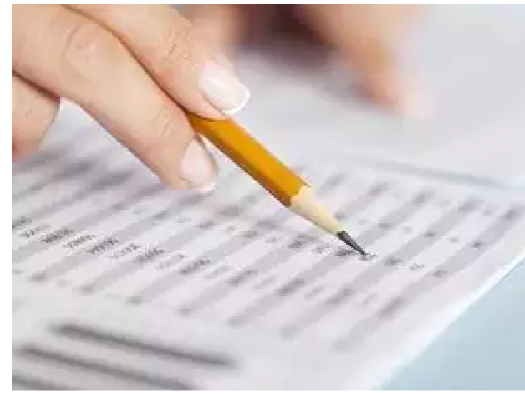

Big Change:
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Some mutual fund investors may be in for a shock: they might soon notice that their favourite balanced scheme has become an aggressive hybrid scheme. If it happens to you, just relax. Your scheme hasn't become extra aggressive overnight. Mostly it still retains the same aggressiveness. Blame Sebi's new categorisation of mutual fund scheme for the new tag. As per the new Sebi norms, hybrid schemes are going to be recategorised under six new categories.

"We might see investors getting anxious after realising that their scheme was actually a very aggressive one, contrary to what they thought. The nomenclature – 'balanced' – was way too vague for all kinds of schemes that we have in the category," says Vishal Dhawan, Founder, Plan Ahead Wealth Advisors.

Fund houses are in the process of recategorising their existing schemes under 10 new equity categories, six new hybrid categories, and under the 16 new debt categories. Mutual fund advisors say that while the new categorisation of balanced schemes will give more clarity to the new investors, it will also be an eye-opener for the existing ones. "This move will be a stepping stone in the mutual fund space. Many investors will finally see through past returns and focus on the risk that they can take. Especially, many direct investors who never paid attention to the portfolio of the scheme," says Deepali Sen, Founder, Srujan Financial Advisors.

Many investors and advisors used to refer to equity-oriented hybrid funds as balanced funds. Though, these funds were mandated to invest at least 65 per cent of the portfolio in equity, many investors considered them very safe. In fact, many advisors used to sell these schemes to retirees for risk-free regular income. Though many of these schemes avoided aggressive investment strategy, some of these schemes have lately started taking extra risk for extra returns.

"Many investors read and listen to experts saying that conservative equity investors or the first-time investors should start with balanced funds. But they didn't know that in their quest of better returns, they ended up in a balanced fund that was taking more risk than large-cap schemes," says Vishal Dhawan.

As said before, if you suddenly notice that your scheme is listed under the aggressive category, don't panic. "This will be a wake-up call for many. But I would suggest that there shouldn't be a knee-jerk reaction to this situation. Consult a financial planner and look at your entire portfolio, costing and taxation before getting out of a scheme," says Deepali Sen.

As per Sebi's new categorisation, there would be six broad hybrid categories:

Conservative hybrid funds: These schemes will predominantly invest (75-90 per cent) in debt instruments. They can also make investments in equity and equity-related instruments (between 10-25 per cent of total assets).

Balanced hybrid funds: These schemes will invest 40-60 per cent of the total portfolio in either equity or debt. They are not permitted to invest in arbitrage.

Aggressive hybrid funds: They will invest mostly in equity (65-85 per cent) and a small per cent of the total portfolio (20-35 per cent) in debt.

Dynamic asset allocation or balanced advantage funds: They will be allowed to manage the equity and debt portion dynamically.

Multi asset allocation funds: They will invest in one extra asset class apart from debt and equity. The minimum allocation to each asset class should at least be 10 per cent.

Arbitrage funds: They will follow the arbitrage strategy.

Equity savings funds: They will invest in equity, debt and arbitrage. These schemes will invest minimum 65 per cent of their assets in equity and minimum 10 per cent in debt. Minimum hedged and unhedged will be stated in the SID.