



EQUITY MARKET

Hybrid funds

Schemes that mix shares and debt: SEBI's seven categories, the 65% tax test, and what none of them assures

Rules as on 12 October 2026. Industry figures as on 31 August 2026

For training and education only. Not investment advice.

'Hybrid' says a fund mixes assets. The category says how much of each.

SEBI sorts hybrid schemes into seven categories. Each has its own rule for how much goes into shares, debt and other assets. Start from the category, not the name.

Why 'balanced fund' is an old label



Before October 2017

'Balanced fund' had no fixed meaning. A 2018 report says some such funds held up to 75% in equity and some up to 50%.



Balanced Hybrid Fund

A SEBI category today: 40% to 60% in equity and 40% to 60% in debt. Arbitrage is not permitted in it.



Balanced Advantage

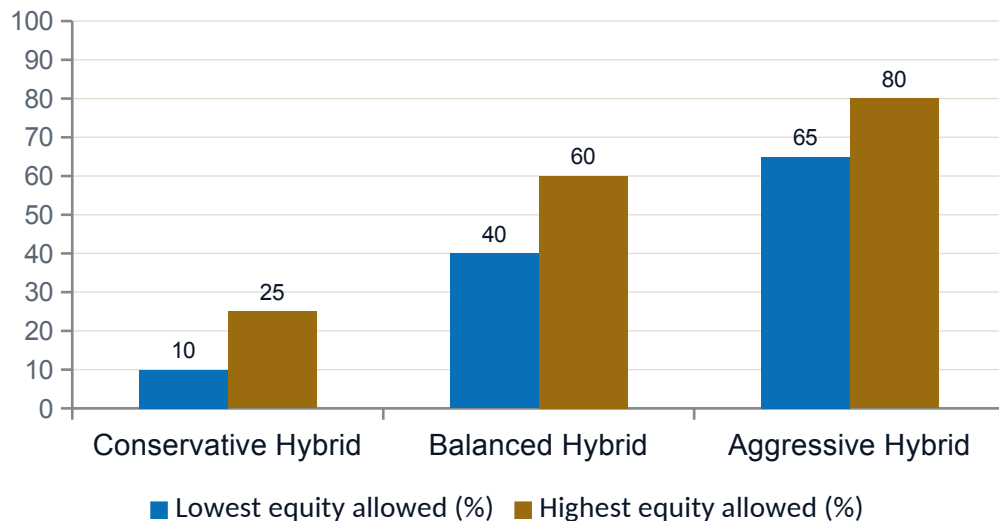
The Balanced Advantage Fund is a different category, also called Dynamic Asset Allocation. Its mix changes over time, with no fixed range.

Ask which SEBI category a fund is in. The category, not the word 'balanced', fixes the mix.

Sources: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.3; MyMoneySage, 17 Jul 2018 (secondary, for practice before 2017).

Three categories with a fixed range

Equity as % of total assets: SEBI's range



Read the chart

- Each pair of bars shows the lowest and highest share of equity SEBI allows. The rest is debt.
- Conservative Hybrid is mostly debt: 75% to 90%. Aggressive Hybrid is mostly equity, with 20% to 35% in debt.
- Balanced Hybrid holds 40% to 60% in each, and may not use arbitrage.

Source: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.3 (Hybrid Schemes).

The other four categories

Category	What SEBI requires	In plain words
Balanced Advantage / Dynamic Asset Allocation	Equity and debt, managed dynamically. No fixed range.	The fund changes the mix over time. Its offer document says how.
Multi Asset Allocation	At least three asset classes, with at least 10% in each.	For example shares, debt and gold. Foreign securities do not count as a separate class.
Arbitrage	At least 65% in equity, following an arbitrage strategy.	It buys a share and sells that share's futures, so price moves largely cancel out.
Equity Savings	At least 65% in equity including arbitrage; net long equity 15% to 40%; at least 10% in debt.	Mainly the net long part moves with the share market.

Source: SEBI Master Circular for Mutual Funds, 20 Mar 2026, para 3.8.3 and its notes (a) and (b).

Rebalancing inside the fund

AN AGGRESSIVE HYBRID

The fund holds ₹750 crore in shares and ₹250 crore in debt.

The category allows 65% to 80% in equity.

Shares then rise 40%. Debt is unchanged.

- 1 At the start: $\text{₹750 crore} \div \text{₹1,000 crore} = 75\%$ in equity. Inside the range.
- 2 After the rise: shares are $\text{₹750 crore} \times 1.40 = \text{₹1,050 crore}$. With ₹250 crore of debt, the fund is ₹1,300 crore.
- 3 Equity is now $\text{₹1,050 crore} \div \text{₹1,300 crore} = 80.8\%$. That is above the 80% ceiling.
- 4 80% of ₹1,300 crore is ₹1,040 crore. The fund moves at least ₹10 crore from shares into debt.

The fund sells some of what rose and adds to the other asset. The mix is brought back inside the range.

Illustration with an invented fund and assumed figures. A 40% rise is not a forecast.

The 65% test decides the tax

Tax law applies its own test to what the fund holds. The SEBI category name does not decide it.

What the fund holds	How gains on units are taxed	Hybrids usually here
65% or more in listed shares of Indian companies	Equity-oriented fund. Held 12 months or less: 20%. Held longer: 12.5% on gains above ₹1.25 lakh a year.	Aggressive Hybrid, Arbitrage, Equity Savings
More than 65% in debt and money market instruments	Slab rate, whatever the holding period, for units bought on or after 1 April 2023.	Conservative Hybrid
Neither of the two	A third set of rules, which turns on the holding period. See the notes.	Balanced Hybrid

Source: Trustner Academy verified fact sheet (investments), 7 Oct 2026: Income-tax Act, 2025, sections 196 and 198; rates as of October 2026, before surcharge and cess.

Where hybrid assets stand

Hybrid schemes in India at the end of August 2026, in ₹ lakh crore. AMFI publishes these every month.

ALL HYBRID SCHEMES

11.86

13.6% of the industry's ₹87.08 lakh crore. Up 17.6% in one year.

BALANCED ADVANTAGE

3.29

Balanced Advantage / Dynamic Asset Allocation. The largest by assets.

ARBITRAGE

3.02

Aggressive Hybrid follows at ₹2.64 lakh crore.

MULTI ASSET ALLOCATION

2.07

Then Equity Savings 0.51, Conservative Hybrid 0.30, Balanced Hybrid 0.03.

Source: AMFI Monthly Note, August 2026 (month-end assets by hybrid category). The 13.6% share is computed from the same note.

What a hybrid fund does not assure



Capital or returns

No hybrid category guarantees the money put in, or any return. The equity part carries market risk; the debt part, interest-rate and credit risk.



A fixed mix

The category sets a range, not a number. Within it the mix moves with prices, and a dynamic fund's equity share can change widely.



A tax treatment

Tax follows the tax law's 65% test on what the fund holds, not the category name. Tax rules have also changed over time.

An arbitrage fund's returns are not assured either, although its share positions are hedged.

If you learnt this from older material

What older decks say

- A balanced fund is about half shares, half debt.
- A fund house offers a balanced or an aggressive hybrid, not both.
- An arbitrage fund is defined only by its 65% in equity.
- Long-term gains on equity-oriented funds are taxed at 10%.

What holds now

- Balanced Hybrid is 40-60% equity; Aggressive Hybrid is 65-80%.
- It may offer both, since February 2026.
- Arbitrage Funds: no InvITs and limits on debt, since 2026.
- 12.5% above ₹1.25 lakh a year, since 23 July 2024.

Sources: SEBI circulars of 6 Oct 2017 and 26 Feb 2026; SEBI Master Circular, 20 Mar 2026, para 3.8.3; Trustner Academy fact sheet (tax), 7 Oct 2026.

Four things people get wrong



'A hybrid fund is half and half.'

Equity is 10% to 25% in a Conservative Hybrid, 65% to 80% in an Aggressive Hybrid, at least 65% in an Arbitrage Fund. Check the category.



'The debt part stops it falling.'

It softens the fall; it does not stop it. With 70% in shares, a 10% fall in shares takes about 7% off the fund.



'Every hybrid is taxed like equity.'

Only a fund that meets the 65% test in listed Indian shares. A Conservative Hybrid, which is mostly debt, does not.



'Arbitrage means a sure return.'

The price gap it captures varies and can be small. Costs come out of it. Returns are not assured.

Check yourself

Q1

A hybrid fund holds ₹600 crore in shares and ₹400 crore in debt. Shares fall 20%; debt is unchanged. What is the fund worth now, and what share of it is equity?

Q2

A fund holds 20% in shares and 80% in debt and money market instruments. Which SEBI hybrid category fits this, and does it meet the 65% equity test?

Q3

A client says: 'Put me in a balanced fund, so I take half the risk of the market.' What would you explain?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Seven hybrid categories, their ranges, residual portion, foreign securities: SEBI Master Circular for Mutual Funds, 20 March 2026, para 3.8.3.
- Hybrid assets by category and industry assets, 31 August 2026: AMFI Monthly Note, August 2026.
- Tax tests and rates (equity-oriented 65%; over 65% debt; 20% and 12.5%; ₹1.25 lakh): Trustner Academy verified fact sheet, 7 October 2026.
- Both Balanced Hybrid and Aggressive Hybrid may now be offered; new limits on arbitrage funds: SEBI circulars of 6 October 2017 and 26 February 2026.
- Practice before the October 2017 categorisation: MyMoneySage, 17 July 2018 (secondary).
- The funds and all figures in the worked examples are invented for illustration. They do not refer to any real scheme.

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