

Beyond Equity, Dynamic Asset Allocation is key to Emerging India

“Long-term wealth preservation may be achieved not just by trying to earn the highest possible returns, but also by managing risk effectively.”

The Mutual Fund industry has witnessed exceptional growth over the last decade, and this momentum accelerated meaningfully after Covid. The financialization of household savings has truly taken shape through the mutual fund route. The AMFI tagline “Mutual Fund Sahi Hai” echoed across households wherever the investment topic was discussed.

Having said that, the mutual fund's Assets under Management ('AUM') growth has predominantly come from top-tier cities. Today, the top five cities contribute over half of the total industry AUM¹. To unlock the next wave of participation, the industry must meaningfully expand into the next 30 cities and beyond.

The surge of investment in financial market has been driven by flows into equity-oriented schemes. Equity-oriented funds dominate in number of investor folios, with a disproportionate share of almost 70%² versus other categories. And understandably so, the average rolling return of the Nifty 50 Index over the last decade was close to 14%³, significantly higher than the traditional investment avenues. However, the next few years will demand a major psychological shift in investor's return expectations. With long-term return patterns normalizing, investors must moderate



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their return expectations from equity investments. One should not be discouraged if returns over the next few years gradually settle into the lower double-digit range, especially with India's nominal GDP expected to grow at around 10–11% annually. Long-term wealth preservation may be achieved not just by trying to earn the highest possible returns, but also by managing risk effectively.

I believe that India's next phase of financialization of savings should come from dynamic asset allocation rather than depending on a single asset class. Hybrid funds could be positioned as the primary investment choice in the next 30 emerging cities where mutual fund penetration is still low. The hybrid funds offer a simple, diversified way for new investors to begin investment in financial markets as they provide exposure to multiple asset classes in a single scheme and may be considered by investor depending on his/her risk profile.

Investors in semi-urban and rural areas often prefer predictability over higher but volatile returns. Hybrid funds are often a suitable fit for this need because they combine equity, debt, and increasingly REITs/InvITs instruments. Categories like Dynamic Asset Allocation Funds which aim to provide relatively stable returns with potentially lower drawdowns compared to equity funds and in some cases, can offer better tax efficiency compared to traditional investment avenues.

Debt instruments provide predictable interest income and typically fluctuate much less than equities. Their stability helps cushion the impact of equity market corrections, reducing overall portfolio drawdowns. Similarly, REITs and InvITs aim to offer steady, yield-driven cash flows linked to real assets such as real estate and infrastructure projects. This blend ensures that returns are more consistent over time, which is essential for preserving and building wealth over the long run. For deeper mutual fund penetration in the next 30 emerging cities, the industry must prioritize hybrid funds, as they may provide comprehensive, all-in-one investment solutions for investors. □

1. Source: AMFI Annual Report Fiscal 2025
2. Source: https://www.amfindia.com/uploads/Folio_and_Ticket_size_Sept_2025_1_eefc2b9e48.pdf
3. Source: <https://niftyindices.com/market-data/return-profile> | as of 16th December 2025

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