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Credit Risk Funds

What are Credit Risk Funds?

Credit risk funds are a category of **debt mutual funds** that invest a significant portion of their portfolio in **lower-rated corporate bonds** (below AAA). These papers offer **higher interest rates** compared to high-quality bonds, but they also carry a **higher risk of default or downgrade**. The fund manager's skill in selecting and monitoring issuers plays a crucial role here.

What do credit risk funds invest in?

- Corporate bonds and debentures with AA, A or even lower ratings
- Limited exposure to government securities
- Aim to earn higher yields by taking calculated credit exposure

Why should one invest in credit risk funds?

1. Higher return potential

Since lower-rated bonds pay higher interest, these funds can generate better returns than traditional debt funds during stable credit conditions.

2. Suitable in falling interest rate cycles

When interest rates soften and credit conditions improve, bond prices may rise, benefiting credit risk funds.

3. Portfolio diversification

For investors with moderate to high risk appetite, a small allocation can enhance overall portfolio returns.

4. Better than FDs for informed investors

Over a full cycle, well-managed credit risk funds may outperform fixed deposits, though they are not substitutes for safe debt.

Important risks to understand

- **Credit risk:** Possibility of issuer default or delayed payments
- **Downgrade risk:** Ratings downgrades can hurt NAVs sharply
- Not for short-term or conservative investors



Top 3 Credit Risk Funds:**1. ICICI Pru Credit Risk Fund***Returns:*

Year	1 Year	3 Year	5 Year
Returns	8.97%	8.37%	7.32%
CRISIL Credit Risk Debt B-II	9.04%	8.66%	7.37%

Returns as on 31st October, 2025.**2. Axis Credit Risk Fund***Returns:*

Year	1 Year	3 Year	5 Year
Returns	8.75%	7.97%	6.79%
CRISIL Credit Risk Debt B-II	9.04%	8.66%	7.37%

Returns as on 31st October, 2025.**3. HDFC Credit Risk Debt Fund***Returns:*

Year	1 Year	3 Year	5 Year
Returns	7.92%	7.71%	6.87%
CRISIL Credit Risk Debt B-II	9.04%	8.66%	7.37%

Returns as on 31st October, 2025.

MFD Details:

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Regards,

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* Mutual funds are subject to market risks. Please read all scheme-related documents carefully before investing. Past performance does not indicate future results. Investments are subject to market fluctuations, and there is no assurance of returns.

