

Six debt funds shut overnight with ₹25,000 crore inside. Investors waited years

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Maxim: *Diversify. In stocks and bonds, as in much else, there is safety in numbers.* — Sir John Templeton

Diversification is not a strategy for people who lack conviction. It is an admission that no one, however careful, can see every risk coming, including in the part of a portfolio meant to be safe.

You diversify not because you expect to be wrong, but because you cannot know in advance where you will be.

On 23 April 2020, about three lakh investors learnt that money they thought they could withdraw at any time was locked away. Franklin Templeton Mutual Fund in India announced it was winding up six of its debt schemes, which together held about ₹25,215 crore. The Covid-19 crisis had dried up liquidity in India's corporate bond market, investors were rushing to redeem, and the schemes could not sell their bonds fast enough to pay them, [Angel One reported](#) in its account of the episode.

The schemes had been popular for years. Their portfolios reflected a choice: they held large portions of lower-rated, highly illiquid corporate bonds, with aggressive exposure to papers rated below AA, [Business Standard explained](#) in 2021. Among the investors were companies and wealthy families who had parked surplus cash there.

The story did not end in ruin. As the bonds matured or were sold, the trustees paid investors back in instalments. By 2023 the payouts totalled about ₹27,109 crore, roughly 108% of the assets at closure. But it took more than three years, and for that time families who had kept emergency money or a house deposit in these funds could not touch it.

The investors who coped best were not the ones who had picked better funds. They were the ones who had not put everything in one place.

The rule, from the man whose name was on the door

There is an irony here. The fund house carried the name of Sir John Templeton, and his eighth rule for investment success is about exactly this. "Diversify. In stocks and bonds, as in much else, there is safety in numbers," he wrote in his [16 Rules for Investment Success](#). His reason was humility, not arithmetic: "No matter how careful you are, you can neither predict nor control the future." A disaster, a strike, a competitor's invention or a problem hidden inside a company can hurt any investment, he argued, so you spread your money by industry, by risk and by country.

Most investors accept this for shares. Few apply it with the same care to the safe part of their savings. A debt fund, a corporate fixed deposit or a single bond feels like a place where nothing much can happen, so people concentrate there in a way they never would with a single stock.

But debt carries risks of its own, and they arrive suddenly. A borrower can default. A rating can collapse in days. A market can stop trading, so that even good bonds cannot be sold. None of these is

predictable in advance, which is precisely Templeton's point. The defence is not a better forecast. It is not depending on any one fund, issuer or institution for money you cannot afford to have stuck.

Nine days in 2018

Eighteen months earlier, the debt market had already given a lesson in how fast "safe" can change. On 8 September 2018, the long-term rating of Infrastructure Leasing & Financial Services, one of India's largest infrastructure lenders, was cut from AA+ to BB. Nine days later it was cut to D, meaning default. At the end of August, 32 mutual fund schemes from 12 fund houses had held about ₹2,283 crore of IL&FS bonds, according to [Morningstar India](#).

The same Morningstar analysis shows why diversification matters. Some IL&FS bonds fell as much as 25% in price after the first downgrade. In a fund that held 5% of its money in such a bond, that meant a fall of about 1.25% in the fund's value: painful, but survivable. An investor who had put a large share of savings directly into one such bond, or into one fund heavily exposed to it, faced a very different outcome.

That is diversification doing its job. It does not stop bad things happening. It limits how much any single bad thing can cost you.

Spreading the safe money

For most households, diversifying the debt side does not require expertise, only a few deliberate habits.

Split money by job. Emergency money belongs in the most liquid, highest-quality places: a savings account, a sweep-in deposit, a liquid or overnight fund. It should never sit in a fund that earns its extra return by holding lower-rated or hard-to-sell bonds. Money for goals five or more years away can take more risk, in a measured way.

Check the credit quality of every debt fund you own. The factsheet shows how much sits in AAA and government securities and how much below. Since Sebi's 2017 categorisation rules, funds that hold mostly lower-rated paper must call themselves credit risk funds, so the label itself is a warning to read.

Spread across institutions as well as instruments. Use more than one bank for large deposits, more than one fund house for debt funds, and avoid putting a large share of savings into any single company's fixed deposit or bond, however familiar the name.

And be suspicious of extra yield. A debt fund or bond paying noticeably more than its peers is being paid to take a risk, even if no one has told you what it is.

If you do one thing: List every place your safe money sits and the share of the total in each. If any single fund, bank or issuer holds more than you could bear to have frozen for three years, start spreading it out.

The three lakh investors of 2020 eventually got their money back, and then some. Many will still remember the three years of waiting more vividly than the final payout. A diversified investor would have felt the same event as an inconvenience rather than a crisis.

Templeton's rule is easy to agree with and easy to forget, especially for money that feels safe. But the parts of a portfolio you never worry about are exactly the ones you are most likely to have concentrated. Spread them, not because you expect to be wrong, but because one day you will be.

Sources

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- [FundsIndia: What Sebi's circular on scheme category definitions implies \(9 October 2017\)](#)

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