# Defence mutual funds down by 20% in six months. Will the scenario change post budget?

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Defence sector based mutual funds (including active and passive funds) have experienced a loss of more than 20% in the last six months. These schemes gave a negative return up to 21% in the said period. Only two funds based on the defence sector have completed six months of existence in the market.

Motilal Oswal Nifty India Defence Index Fund, a passive fund based on defence sector, lost the most of around 21.01% in the last six months. Launched in July 2024, the scheme manages assets of Rs 2,321 crore as on December 2024.

HDFC Defence Fund, the only active fund based on defence sector, lost around 18.85% in the said time period. Launched in June 2023, the scheme manages assets of Rs 4,647 crore as on December 2024.

With defence sector-based funds offering stellar performance for over a year, the market expert believes that during the last budget period, Nifty India Defence was trading at a trailing P/E of 65, significantly higher than the Nifty 500 but over the past few months, valuation compression in the defence index has resulted in negative returns.

"A small universe of companies limits opportunities to find undervalued stocks in this sector and diversify effectively which also limits the ability to protect downside risk. The Nifty India Defence Index saw substantial gains in the CY23 and first half of CY2024. This led to profit booking, as investors capitalized on the sharp returns within a short time frame, which resulted in a correction in the second half of the year," said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

In the last one month, the defence sector-based funds lost around 10.96% on an average. HDFC Defence Fund lost the most at around 14.06%, followed by Aditya Birla SL Nifty India Defence Index Fund which lost 10.41% in the same period. The other four funds lost between 10.18% to 10.40% in the last one month.

Another expert believes that in this budget the defence sector got the highest allocation, while there is a focus on defence sector but there are other sectors which will benefit from the budget and exposure to different sectors would be ideal.

"In this budget, the defence sector has got the highest allocation and followed by rural development and agriculture, home affairs etc. All these together will impact infrastructural developments. Apart from this the Union Budget FY 25-26, brought about a change in taxation which will allow more disposable income in the hands of middle class this will impact the consumption and other related sector such as FMCG, auto, banking, financial services as individuals are expected to spend or save more" commented Chirag Muni, Executive Director, Anand Rathi Wealth Limited.

"While there is a focus on the defence sector, there are other sectors which will benefit from this budget which have an inclusive approach. Thus, having exposure to different sectors in the portfolio would be ideal," he adds.

The Nifty India Defence index is down by 29% from its 52-week peak on July 11, 2024. These schemes have offered negative returns in the last three months and nine months as well. In the last three months, these funds lost 8.20% on an average and in the last nine months, these funds lost 0.97%.

After this negative performance and down from a 52-week high, the expert recommends that investors should review their portfolio and remove such sector funds if any and instead opt for actively managed mutual funds from diversified categories.

“Investors should review their existing portfolio and remove such sector funds if any in the portfolio and instead opt for actively managed mutual funds from diversified categories. A diversified approach with a mix of market caps is ideal: 55% in large-cap, 20% in midcap and 25% in small caps across diversified equity funds,” recommended Chirag.

“You can get exposure across various sectors via diversified fund basket in large cap, midcap small cap, Multicap etc whereby you can have a sector diversification. Nifty 50 has an exposure to various sectors as mentioned below and you can opt for similar diversification via actively managed funds with a deviation of +/-5-7%,” he adds.