



## YOUR MONEY

MANY FUNDS WITH SIMILAR HOLDINGS?

# Exit some and move fresh money into other segments

KARTHIK JEROME

The Securities and Exchange Board of India (Sebi) plans to tighten scrutiny when a fund house launches a new sector or thematic scheme. It will seek a model portfolio and examine whether the proposed fund overlaps with an existing scheme from the same fund house by more than 50 per cent. While this addresses overlaps at the fund-house level, investors must also scrutinise their own portfolios for overlaps.

Overlap refers to the same stocks appearing across fund portfolios. "Such overlapping funds move in tandem, reducing diversification benefit," says Kaustubh Belapurkar, director – manager research, Morningstar Investment Research India.

### Mindless addition of funds

Overlap typically arises when investors add too many funds indiscriminately, often belonging to the same category, based on

past returns. Buying multiple schemes run by the same fund manager (say, a flexicap and an ELSS fund) also results in overlap. Investing in more than one sector or thematic fund from the same sector or theme, which have a limited universe of stocks to choose from, increases overlap. Many of the stocks held by sector and thematic funds are already present in diversified funds.

"New fund offers also contribute. As portfolios are not disclosed at launch, investors are unable to assess common holdings," says Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

### How to check for portfolio overlap

For a basic check, download the portfolios of the two funds in Excel and identify the common stocks — at least the top 10. "Examine not just the names but also the weightages. A stock having 10 per cent weight in one fund and 1 per cent in another

would cause only a minor overlap," says Dhawan.

Several mutual fund websites have online tools for checking portfolio overlaps, though some require a subscription. To prevent overlap at the portfolio construction stage, diversify by market cap, style, and geography.

### Diversification by market cap

Different market caps perform differently across cycles. "Large caps offer stability when markets struggle. Mid and smallcap stocks generate higher long-term returns but experience sharper drawdowns," says Deepesh Raghaw, a Sebi-registered investment advisor. He adds that diversifying across large, mid and small cap funds can combine the benefits of participation in rallies with downside protection. Investors with higher risk tolerance and longer investment horizons can have higher exposure to mid and smallcap funds.

### Diversification by style

Investment styles — growth, value, momentum and quality —

also go through cycles. "No one can predict which style will outperform at which point in time," says Belapurkar. Blending various styles in a portfolio can ensure that some part of it performs, irrespective of which style is in favour. Investors can assess a fund's style through fund disclosures, style boxes, Sebi's categorisation, and fund managers' commentary on their investment approach.

### Diversification by geography

Geographical diversification smoothen portfolio performance as different markets don't always move sync. "Domestic and international markets respond to varied drivers such as commodity cycles, technology cycles, interest rates, inflation and geopolitics," says Dhawan. sBelapurkar adds that overseas exposure provides access to businesses not available on the local bourses. Raghaw points out that international diversification offers a hedge against rupee depreciation.

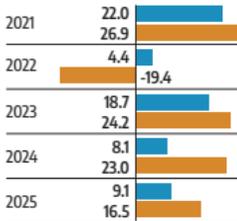
### How to remove overlap

Some overlap is inevitable. "If it is excessive, investors may need to exit certain schemes, while minimising tax incidence and exit load. Alternatively, directing fresh money into underrepresented areas can gradually reduce overlap," says Dhawan.

To restructure your portfolio, begin by deciding on an asset allocation across equity, debt, precious metals and real estate based on risk tolerance and horizon. Next, decide the exposure to sub-asset classes. Finally, Raghaw cautions that before adding a new fund to the portfolio, investors must ensure it will add value.

## US market: Return booster

Returns (%) ■ Sensex ■ S&P 500



Source: pbcis.in