



## YOUR MONEY

### SECTOR, THEMATIC FUNDS' OUTLOOK

# Avoid over-allocation and chasing recent performance

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In calendar year (CY) 2025, sectoral funds tracking the Nifty PSU Bank (26 per cent), Nifty Auto (20 per cent) and Nifty Metal (24 per cent) emerged as top performers. While banking and financial stocks did well overall, PSU banks benefited in particular from lower interest rates, infusion of liquidity, and relatively attractive valuations.

Nifty Auto gained on rising vehicle demand and improved sentiment, while Nifty Metal was supported by higher commodity prices. Nifty Defence also performed well, delivering 19 per cent returns amid rising defence expenditure and higher export potential.

"Thematic and sector funds offer focused exposure to structural trends that may not be adequately represented in broader diversified portfolios. In favourable market conditions, well-selected sectoral allocation can generate outsized returns," says Sirshendu Basu, head, product management and strategy, Bandhan Asset Man-

agement Company (AMC).

#### A risky bet

**Sectoral and thematic investments require caution, as leadership can shift rapidly.** "The concentrated nature of these funds makes them inherently more volatile," says Vishal Dhanwan, founder and chief executive officer, Plan Ahead Wealth Advisors.

Recent performance highlights this volatility. The Nifty Realty Index delivered strong gains of 81 per cent and 34 per cent in CY2023 and

CY2024, but lost 16 per cent year to date (YTD) in CY2025. The Nifty Auto Index also saw sharp swings, delivering 47 per cent and 22 per cent returns in CY2023 and CY2024, respectively. Nifty Metal delivered only 8 per cent returns in CY2024.

#### For satellite portfolios

Limit sectoral exposure to the satellite portfolio. "Sector and thematic funds are best viewed as tactical instruments, not core portfolio anchors. A portfolio can have a core holding of 70–80 per cent in diversified equity, debt and stabilising assets, while the satellite allocation (20–30 per cent maximum) can be used for tactical themes and sector exposures, with typically no more than 10 per cent of the total portfolio value allocated to a single sector," says Niharika Tripathi, head of products and research, Wealthy.in.

#### Timing matters

Getting both entry and exit timing right is critical. "Sectors and themes tend to be cyclical and are susceptible to timing risk during both entry and exit," says Kaushtubh Belapurkar, director – man-

ager research, Morningstar Investment Research India.

"Phased investing helps manage timing risk by spreading entry across market conditions," says Tripathi.

#### Avoid if uncertain

Investors unsure about sector selection are better served by diversified equity funds. "Most investors may avoid sector or thematic funds, especially narrow ones, where price movements can be very volatile. Well-managed diversified equity funds, where fund managers express more graded overweight or underweight views on sectors, could be better," says Belapurkar. "First-time or inexperienced investors should avoid these funds," says Tripathi.

#### Hold for the long term

**Those investing in sector funds must be prepared to hold through cycles.** "Allocating 5–15 per cent of the equity portfolio to such funds is reasonable, ideally spread across one to three themes. The ideal investment horizon is five years or longer," says Dhanwan.

#### Common Mistakes

Overexposure and chasing past performance are common pitfalls. "The biggest mistakes are over-allocating to sector funds and investing with misplaced performance expectations," says Belapurkar. "Investors are often drawn into sector funds after periods of strong returns, only to face subsequent underperformance when the cycle turns. Another pitfall is treating them as permanent core holdings. Periodically reassess their investment rationale and rebalance when necessary," says Basu.

## Sectors you may consider

- **Banking and financial services:** Low gross NPAs, high capital adequacy and provisioning, credit growth, accommodative policy and attractive valuations
- **Healthcare:** Low hospital bed availability, rising health awareness, higher insurance penetration, Ayushman Bharat, strength in generics, expanding CDMO opportunity
- **Consumer discretionary:** Moderating inflation, rising per-capita income, premiumisation, growth in organised retail
- **Information technology:** Reasonable valuations, gradual AI monetisation, stabilising global IT spending, improving deal conversions

Note: Conduct due diligence before investing

The writer is a Gurugram-based independent journalist