

INVESTING CONCEPT

TOPIC

Sectoral investment in mutual funds or ETFs

♦ COMMENTARY

- ▶ Sectoral funds are funds that invest in specific sectors or industries.
- ▶ Structural sectors include IT, pharma, FMCG, banking, healthcare and chemicals. These sectors have more steady growth and are less affected by economic cycles. These are less volatile investments.
- ▶ Tactical sectors such as automotive, energy, real estate, commodities, infra and manufacturing are much more cyclical and see greater downturns during economic weakness.



INVESTING CONCEPT



TOPIC

Sectoral investment in mutual funds or ETFs

◆ COMMENTARY

- ▶ Investing in funds based on specific sectors must be done with logic and a clear vision.
- ▶ Sectors can enter sideways or negative trends for long periods that can hurt portfolios that are based heavily on a few sectors.
- ▶ Investing in sectoral funds should be done on two logics: i) if you like a sector's potential but are not able to pick individual stocks, or, ii) if you want to avoid stock picking altogether and create a diversified portfolio that has exposure to multiple industries and sectors.



INVESTING CONCEPT



TOPIC

Sectoral investment in mutual funds or ETFs

◆ COMMENTARY

- ▶ SIP is the appropriate mode of investment for sectoral funds based on defence, infrastructure, energy, PSUs or manufacturing.
- ▶ Sectors like real estate, commodities, or logistics are extremely cyclical. The investor needs to have immense macro-economic knowledge to be able to enter when the cycle picks up and exit when it loses strength. In this case lumpsum entries and exits are better.
- ▶ Investments in the above sectors should not exceed 20% of the mutual fund portfolio.



INVESTING CONCEPT



TOPIC

Sectoral investment in mutual funds or ETFs

◆ COMMENTARY

- ▶ Sectoral funds for structural sectors such as IT, pharmaceutical, FMCG, banking, healthcare and chemicals can be the core of your portfolio. SIP is the way to go for these sectors.
- ▶ These are sectors that have more 'secular' movement. They form the foundation of the economy and are linked deeply to the everyday lives of people. Thus, these businesses tend to have much more consistent earnings.
- ▶ Investments in the above sectors can go up to 50% of your mutual fund portfolio.



INVESTING CONCEPT

TOPIC

Sectoral investment in mutual funds or ETFs

✦ COMMENTARY

- ▶ There are other unique sectoral and thematic funds. Some examples: funds based on countries such as Taiwan or Japan; ESG (Environmental, Social, and Governance) funds; exports and services funds; MNC funds; business cycle funds; housing opportunities funds; and ethical funds.
- ▶ It is best that the investor avoid such funds.
- ▶ Allocation to sectoral funds should not exceed 50% of your mutual fund portfolio. Maximum investment in a sector should be 10%.

