

Using Thematic Funds to Generate Alpha

Investors are increasingly allocating more money to thematic funds, a category with 161 schemes having assets under management of ₹3.06 lakh crore as of April

ISTOCK



WHAT ARE THEMATIC FUNDS?

Thematic funds are a category of equity funds which invest at least 80% of total assets in stocks of a particular theme. Some popular themes launched by fund houses in the last few years are public sector undertakings (PSU), infrastructure, MNC, business cycle, and manufacturing funds. For example, a PSU fund has a portfolio of PSU stocks like NTPC, Power Grid, SBI, HPCL, Hindustan Aeronautics, Bharat Electronics etc. A manufacturing fund will own companies in sectors like capital goods, engineering, cement, materials etc and exclude sectors like IT and core banking.

WHERE DO THEMATIC FUNDS STAND IN THE RISK MATRIX?

Financial planners point out that thematic funds carry higher risk and reward. Unlike diversified equity funds that are broad-based and can invest across sectors, thematic funds invest in a narrow range of stocks and hence carry high concentration risk. However, they are far more diversified than sectoral funds like IT or pharma and carry lower risk than them. If you invest at a time when the economy works in favour of the underlying companies then these themes could give you high returns. However, any sudden adverse development in the economy which is not anticipated could impact companies in the portfolio leading to even a loss in the near term. Themes, however, may take longer to play out, while the broader market may continue to move up leading to underperformance for a longer time.

WHEN CAN YOU BUY A THEMATIC FUND?

Financial planners suggest first-time investors should start with diversified equity mutual funds. Once the core portfolio is built, investors can opt for thematic funds for alpha generation opportunities. They should, however, understand the associated risks. Investors could allocate to a thematic fund as a satellite portfolio after building a core portfolio of diversified equity schemes.



Invesco Mutual Fund

An investor education and awareness initiative

For Know Your Customer (KYC) guidelines along with the documentary requirements and procedure for change of address, phone number, bank details, etc., please visit the Education and Guidance section on www.invescomutualfund.com. Investor should deal with only SEBI registered Mutual Funds, details of which can be verified under "Intermediaries/Market Infrastructure Institutions" on <https://www.sebi.gov.in/index.html>. For any grievance / complaint, please call us on 1800-209-0007 or write to us at mfservices@invesco.com. Alternatively, complaints can be registered on the SEBI SCORES Portal at <https://scores.gov.in>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.



HOW CAN ONE INVEST?

Like any equity-oriented

scheme, investors can make both lump sum and systematic investments in these schemes. If investors believe certain events will unfold over a year, which will help them average their investments, they could use a staggered approach while if they feel the theme can perform anytime, they can opt for a one-time investment.

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