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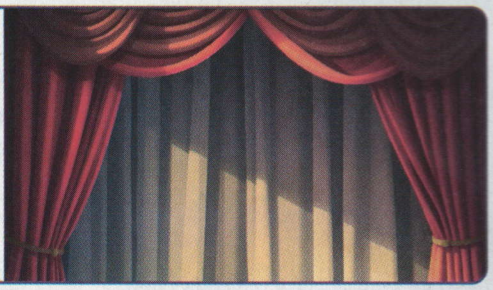

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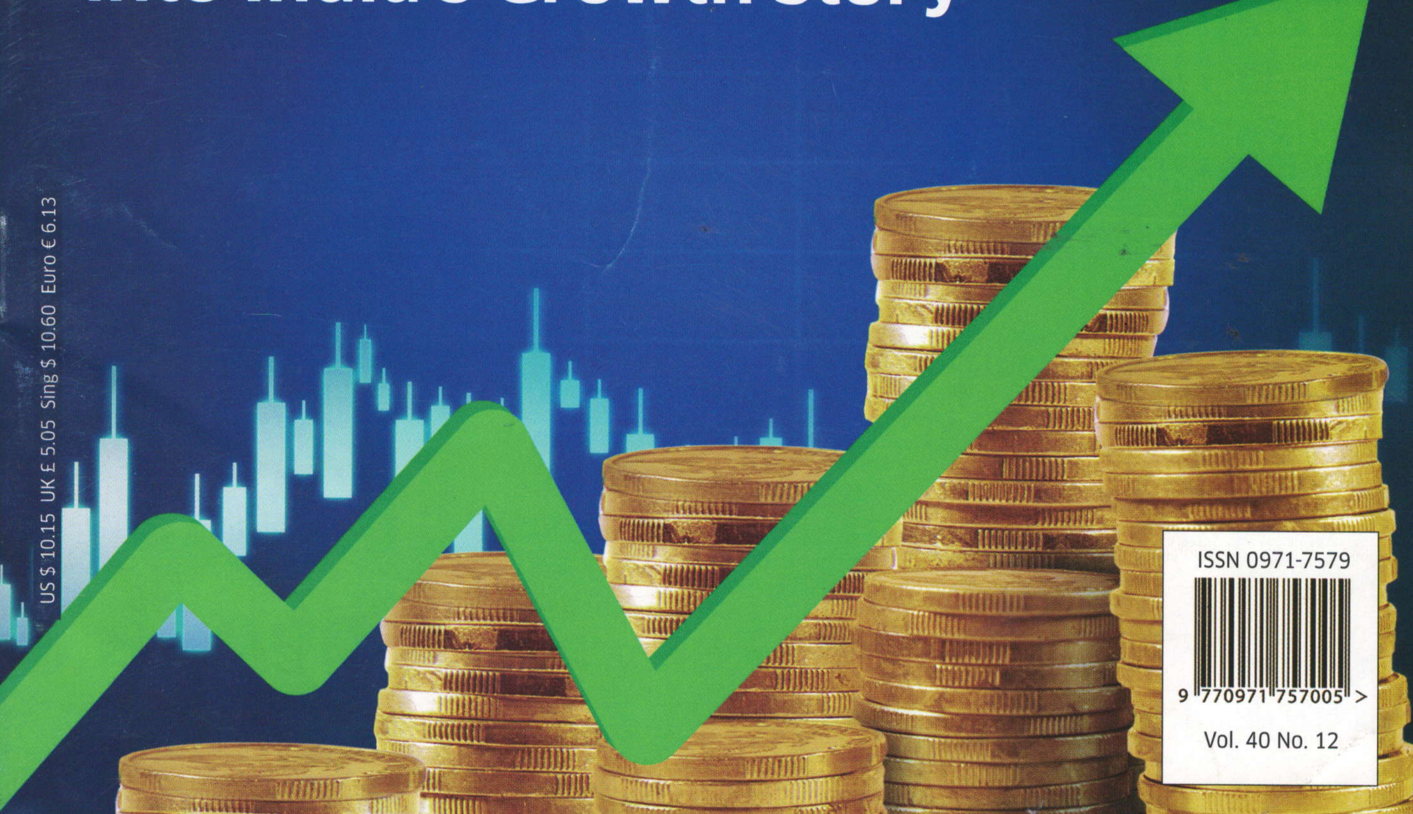
Special Report

## Mutual Funds For NRIs

Cover Story

## PSU Funds: Tapping into India's Growth Story



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DALAL STREET INVESTMENTJOURNAL
Vol. 40. No. 12 • May 05 - 18, 2025

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# Making Sense of Thematic MFs During Market Swings

The recent market rally has once again brought thematic and sectoral mutual funds into the spotlight. These funds invest in specific sectors or themes—like renewable energy, public sector undertakings (PSUs), or infrastructure—with the aim of capturing high-growth opportunities. While they can deliver impressive returns, their narrow focus also makes them riskier than diversified funds.

Thematic funds tend to perform well during periods of high market activity. For example, PSU and energy funds have historically rebounded strongly after market corrections. Post the 2020 crash, ESG (Environmental, Social, Governance)-focused funds gained sharply as interest in sustainability grew. However, these funds can also suffer steep losses when their chosen theme underperforms. A recent case is the underperformance of infrastructure-themed funds, hurt by project delays and rising costs.

One of the biggest challenges in investing in thematic funds is timing. Many investors jump into thematic funds after a strong rally, often buying high and selling low during downturns. SEBI data shows that in 2023, over 60 per cent of flows into thematic funds came when markets were near their peaks. Predicting when a theme will recover is difficult, and these funds generally require a long holding period—ideally 5 to 7 years—to ride out market cycles.

That's why we suggest keeping thematic funds limited to 10–15 per cent of your overall portfolio. They should support your core diversified holdings, not replace them. Systematic Investment Plans (SIPs) can help reduce timing risk by spreading out your investments.

In summary, while the current market mood may tempt investors to chase themes, it's important to stay disciplined. Match your investments to your risk profile, focus on long-term trends, and avoid following the crowd.

**Shashikant Singh**
*Executive Editor*

## SIP Vs STP

I found the Expert Speak column in the last issue very interesting. While I am familiar with SIP, I couldn't fully understand the term "systematic investment through STP." Could you please guide me?

***- Dheeraj Sinha***

**Editor Responds :** Thank you for taking the time to write to us! A Systematic Investment Plan (SIP) and a Systematic Transfer Plan (STP) are both disciplined investment strategies, but they serve different purposes. SIP involves investing a fixed amount regularly into a mutual fund, typically an equity fund, helping investors benefit from rupee cost averaging and compounding over the long-term. It is ideal for those looking to build wealth gradually with small, consistent investments. On the other hand, STP allows investors to transfer a fixed amount periodically from one mutual fund to another, usually from a debt fund to an equity fund. STP is often used to manage market volatility or to deploy a lump sum amount in a staggered manner into equity markets, offering a balance between growth potential and risk management.

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