

In 2024 investors poured ₹79,000 crore into theme funds. Start with the goal instead

Published by OneRightAI · 5 min read

Maxim: *How to choose the right mutual fund.* — Monika Halan

Most fund mistakes are not bad picks. They are good funds bought in the wrong order: the product first, the purpose later, if at all.

The right mutual fund is chosen in the wrong order far more often than it is chosen badly.

April 2024 showed how that happens. HDFC Mutual Fund's new Manufacturing Fund collected about ₹12,500 crore in its launch offer, a record for a new fund in India. It was not alone. Over the year, 53 new sectoral and thematic equity funds raised ₹79,109 crore, around two-thirds of the ₹1.18 lakh crore gathered by all 239 new fund offers, according to Germinate Investor Services data [reported by Business Standard](#). Manufacturing, defence, public-sector companies, consumption: each theme came with a story that felt like the future.

Then the mood turned. By February 2025, monthly money into thematic and sectoral funds had fallen almost 75% from its September 2024 peak, and about 19% of these schemes were showing losses of more than 10%, Elara Capital found, as [Business Standard reported](#). Elara's Sunil Jain pointed out that the category's assets, measured against India's total market value, had gone past their 2008–09 peak, and that many recent buyers were already sitting on losses.

To be fair to the record fund, it has held up better than the broad market: over the year to 22 October 2026 it was roughly flat while the Nifty 500 fell more than 8%, on [INDmoney's data](#). The problem with the 2024 rush was not that every theme fund was a bad fund. It was that many buyers chose a theme before deciding what job their money had to do.

Start with the job, not the product

Monika Halan, author of *Let's Talk Money* and a long-time Mint columnist, has spent years teaching the opposite order. In an episode of her *Money With Monika* series on [choosing the right mutual fund](#), she starts not with funds at all, but with needs. "You need to break up your needs according to the distance of your goal," she says. The longer the horizon, the more equity a portfolio can hold; "the shorter your time horizon, the more debt funds you should have."

It sounds obvious, and it is routinely skipped. A fund chosen for a goal three years away should not look like one chosen for retirement thirty years away, however good both funds are. Get the mix of equity and debt right, and the choice of individual fund matters much less. Get it wrong, and even the best fund in India will be in the wrong place when you need the money.

The category is the real choice

Sebi made the next step easier. Its [October 2017 categorisation rules](#) forced fund houses to keep schemes "clearly distinct in terms of asset allocation, and investment strategy," allowed broadly one scheme per category for each fund house, and fixed what the labels mean: large caps are the top 100

companies by market value, mid caps the next 150, small caps everything after. A category name now tells you something real about risk.

That makes the category, not the fund, the decision that drives most of your experience. A small-cap fund will behave like a small-cap fund whichever manager runs it. A thematic fund is a concentrated bet on one part of the economy, by design.

Chasing the top of the table is the trap at the last step. Morningstar's Larissa Fernand [described one case](#) in 2022 where the best-performing equity fund returned about 40% over three years, but its average investor earned about 20%. Gaps like that usually mean money arrived after the strong run rather than before it.

Choosing in the right order

Halan's order turns fund selection from a hunt for the best fund into a short sequence of decisions, most of which are about you:

1. **Name the job and the date.** Write down what the money is for and when you will need it: an emergency buffer, a home down payment in four years, retirement in twenty-five.
2. **Let the distance set the mix.** Money needed within about three years belongs mainly in liquid or short-duration debt funds. Goals more than seven years away can carry mostly equity. Between the two, use a blend.
3. **Choose the category before the fund.** For a long-term equity core, a large-cap index fund or a flexi-cap fund does most of the work. Treat a sectoral or thematic fund as a small satellite, if at all, because it is a bet on one part of the economy.
4. **Then choose the fund, slowly.** Prefer the direct plan, a low expense ratio and a record of beating the benchmark over five years or more, rather than last year's ranking or a new fund's story.
5. **Keep the list short.** Three or four funds usually cover a family's goals. More funds often mean more overlap, not more diversification.

A simple decision rule. Before buying any fund, complete one sentence: "This money is for ..., needed in ... years, so it belongs in ... category." If you cannot fill in all three blanks, you are not ready to choose a fund. If the fund you are looking at does not fit the category in the third blank, however exciting its theme or recent return, it is the wrong fund for this money.

The ₹79,000 crore that went into theme funds in 2024 will not all end badly; some of those themes may yet reward patient holders. But a fund that was never matched to a goal has no natural holding period and no reason to stay through a bad patch. That is why the first question Halan asks is not which fund, but what for. Answer it, and the right fund is usually a dull one.

Sources

- [Mutual funds raise Rs 1.18 trn via NFOs in 2024; thematic funds lead](#), Business Standard (PTI, Germinate Investor Services data), 13 January 2025
- Sunaina Chadha, [Sectoral and thematic flows drop to 10-month low](#), Business Standard (Elara Capital data), 24 March 2025
- [HDFC Manufacturing Fund – Direct Growth](#), INDmoney (data to 22 October 2026)
- Monika Halan, [Money With Monika: how to choose the right mutual fund](#), 23 January 2019
- [Sebi sets 5 broad categories for MF schemes](#), Business Standard, 6 October 2017

- Larissa Fernand, [The gap between investor return and investment return](#), Morningstar India, 4 July 2022

The Virtual AI Author is an AI writer for OneRightAI.

Disclaimer

This article is published by OneRightAI for general information and investor education only. It was written by an AI author and may contain errors or omissions, and facts may have changed since publication. It is not investment, tax or legal advice, and it is not a recommendation or solicitation to buy, sell or hold any security, mutual fund, bond or commodity. Companies, funds and indices are mentioned only to illustrate concepts. OneRightAI is not registered with the Securities and Exchange Board of India (Sebi) as an investment adviser or research analyst. Investments in securities markets are subject to market risks; read all related documents carefully before investing. Past performance does not guarantee future returns. Consult a Sebi-registered investment adviser and a qualified tax professional before making any investment decision. OneRightAI and its authors accept no liability for any loss arising from the use of this information.

Credits and rights

Maxims and quotations are attributed to their original authors and are used for commentary and investor education; their use does not imply any affiliation with, or endorsement by, those authors or their publishers. Facts and data from third-party sources are summarised in our own words and credited with links; all copyrights and trademarks remain with their respective owners. OneRightAI is not responsible for the content of external websites.