Fund Categories, Explained

Diversification vs Concentration

Multi-Asset & Multi-Cap vs Sector/Thematic Funds

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Same word, three different bets

"Mutual fund" is a single word that covers very different structures underneath it. A multi-asset fund, a multi-cap fund, and a sector or thematic fund can all sit inside the same portfolio, wear the same "equity-oriented" label on a factsheet, and still be built on opposite ideas about risk. The category name tells you almost nothing about how concentrated your money actually is until you look at what the fund is allowed to hold.

- Same wrapper — a mutual fund — very different internal construction
- The category name is a starting point, not the full picture
- What matters is how the mandate restricts or frees the manager

02 — Multi-Asset

What a multi-asset fund does

A multi-asset fund diversifies across asset classes — typically equity, fixed income, and commodities such as gold or silver — inside a single scheme, rather than asking the investor to build that mix themselves across separate products. The exact allocation band is defined in the scheme document, and the fund manager rebalances within those bands as market conditions shift.

- Exact mix depends on the scheme mandate, not investor discretion
- Built to smooth returns across different market cycles
- One holding gives exposure to several, often uncorrelated, return drivers
- Rebalancing between asset classes happens inside the fund itself

03 — Multi-Cap

What a multi-cap fund does

A multi-cap fund gives exposure across large-cap, mid-cap and small-cap companies, all within the equity asset class itself. Unlike a flexi-cap fund, where the manager has full discretion, a multi-cap scheme operates under a category framework that mandates a minimum allocation to each of the three market-cap segments at all times.

- SEBI category rules require a minimum allocation to each cap segment
- Manager cannot quietly drift the entire portfolio into one segment
- Breadth across company size is structural, not a discretionary choice
- Still a single-asset-class fund — it stays within equity

04 — Sector/Thematic

What a sector or thematic fund does

A sector or thematic fund concentrates the portfolio around one sector — banking, IT, pharma — or one broader theme, such as manufacturing or consumption. There is no rule forcing diversification away from that sector or theme, so the fund's fortunes are tied closely to how that one part of the economy performs over the holding period.

- Higher concentration risk by design, not by accident
- Entry valuation matters far more than in a diversified fund
- Timing of the sector or theme's cycle becomes a key variable
- Correlated to a single economic driver rather than several

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Side by side

	Multi-Asset	Multi-Cap	Sector/Thematic
Spreads across	Asset classes (equity, debt, commodities)	Market-cap segments within equity	One sector or theme
Structural rule	Scheme-defined allocation bands	Minimum allocation per cap segment	No diversification requirement
Concentration	Low	Moderate	High
Ideal role	Core, all-weather holding	Core equity holding	Smaller, tactical satellite

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The line that separates them

Multi-asset and multi-cap funds are both built, in their own way, to spread risk across sources of return that do not all move together — different asset classes in one case, different company sizes in the other. A sector or thematic fund is built to do the opposite: to bet more heavily on one story, one cycle, one part of the market being right.

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Diversification vs Concentration

That single distinction — diversification versus concentration — is the core difference sitting underneath every category label on a factsheet. Everything else, from expected volatility to how the fund behaves in a downturn, follows from where a scheme sits on this spectrum.

- Diversification: the outcome depends on many, largely independent factors
- Concentration: the outcome depends heavily on one call being right
- Neither is "better" — they simply carry different kinds of risk

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Why entry timing matters more here

A sector or theme moves in cycles — it re-rates when the market turns optimistic about it, and de-rates when sentiment fades, often well before the underlying business fundamentals actually change. Enter after that re-rating has already largely played out, and even a fundamentally correct long-term view on the sector can still produce a disappointing investor outcome simply because the price already reflected the good news.

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What the multi-cap rule protects against

Without a minimum-allocation rule, a fund manager could quietly concentrate an entire "diversified" equity scheme into whichever cap segment happens to be in favour that year — chasing small-cap momentum in a bull run, or retreating entirely to large-caps in a correction. The category rule exists precisely to keep the promised breadth genuine rather than something that can be abandoned under pressure.

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What multi-asset exposure protects against

Equity, debt and commodities rarely fall together for the same underlying reason at the same time — a growth scare that hurts equity can be the exact environment where gold or bonds hold up. Holding more than one asset class inside a single scheme is a structural cushion against any one of them having a bad cycle, without the investor needing to manually rebalance across separate products.

When sector/thematic can still make sense

Sector and thematic funds are not to be avoided altogether — they simply demand a different role and a smaller allocation, used as a tactical satellite by an investor who already has a diversified core in place.

- Genuine conviction on a specific sector or economic cycle
- Comfort with meaningfully higher drawdowns than the core portfolio
- Position sized so that a wrong call does not derail the overall plan
- A clear view on valuation, not just on the story

12 — Takeaway

For a long-term core portfolio

For an investor building a core, long-term portfolio, understanding this diversification-versus-concentration difference may matter more than simply chasing whichever fund category happened to top the recent performance charts. Performance chasing tends to buy concentration risk right after it has already paid off — which is exactly the wrong time to add it.

Disclaimer

Not investment advice. Mutual fund investments are subject to market risks. Please read all scheme-related documents carefully before investing, and consult a registered investment advisor or mutual fund distributor to assess suitability for your own financial goals and risk appetite.

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