Focus Fund: High-Conviction Investment Strategy

In the evolving landscape of Indian equities, Focused Funds have emerged as a "high-conviction" vehicle for seasoned investors. While most equity funds aim to minimize risk through broad diversification (often holding 50–100 stocks), focused funds operate on the philosophy that "too much diversification leads to mediocre returns."

Below is an insightful look into this category, articulated in the signature style of Crescent MFD, incorporating the latest 2025 SEBI regulatory updates and market analysis.

The High-Conviction Strategy: Investing Through Cycles

A Focused Fund is an equity mutual fund that invests in a limited number of stocks—maximum 30, as per SEBI mandates. This "best ideas" approach means the fund manager only picks companies they are extremely confident in.

1. **Style in Various Market Cycles**

- **Bull Market**: Focused funds often lead the rally. Because they are not "diluted" by laggards, if the manager's top 10 picks perform well, the fund can significantly outperform broader indices like the Nifty 50.
- **Bear Market**: These funds can be more volatile. Without a wide safety net, if a few key stocks in the 30-stock portfolio crash, the Net Asset Value (NAV) can drop faster than a diversified fund.
- **Consolidation Phase**: During "sideways" markets, focused funds rely on Stock Picking rather than market momentum. A manager might focus on "Value" or "Growth" themes that are independent of the broader index.

2. **Economic Conditions**

In a high-interest-rate environment, focused funds might lean heavily toward cash-rich Large-Caps. In a recovery phase (low interest rates), they might pivot toward aggressive Mid-Cap "challengers" to capture alpha.

SEBI Guidelines: The Framework of 2025

The Securities and Exchange Board of India (SEBI) has established strict guardrails to ensure these funds remain true to their label:

- Stock Limit: A Focused Fund cannot hold more than 30 stocks at any given time.
- Asset Allocation: It must invest at least 65% of its total assets in equity and equity-related instruments.
- Flexibility: Unlike Large-Cap or Mid-Cap funds, Focused Funds are "multi-cap" in nature. They can invest across any market capitalization unless the scheme's specific mandate says otherwise.
- New 2025 Expense Norms: As of late 2025, SEBI has transitioned to a Base Expense Ratio (BER) framework. For equity schemes like Focused Funds, the BER is capped based on AUM (e.g., ~2.10% for assets up to ₹500 crore), with statutory levies like GST and STT charged separately on actuals for better transparency.

Risk Profile: The Double-Edged Sword

- Concentration Risk: If a fund has a 10% weightage in a single stock and that company faces a regulatory hurdle, the impact on your portfolio is severe.
- Manager Risk: In a focused fund, you aren't just betting on the market; you are betting on the Fund Manager's ability to be right 30 out of 30 times.
- Liquidity Risk: In times of market stress, selling large chunks of a few stocks can be harder than selling small chunks of many stocks.

Case Study: Performance & Numbers

Source: Crescent MFD Internal Analysis (Dec 2025)

Consider two hypothetical scenarios based on 2024-2025 market data:

Metric	Focused Fund A (30 Stocks)
Top 5 Holdings Weight	35%
2025 SIP Returns (XIRR)	20.5%
Standard Deviation (Volatility)	18.2%
Portfolio Turnover	High (High Conviction)

Analysis: In 2025, top-performing focused funds like SBI Focused Equity and ICICI Pru Focused Bluechip saw XIRR returns exceeding 20% due to concentrated bets on the banking and manufacturing sectors, which led the year's growth. However, during the brief "flash correction" in Q3 2025, these funds fell 8% compared to the diversified fund’s 4% dip.

Who Should Invest?

At Crescent MFD, we recommend Focused Funds for:

- <u>Aggressive Investors</u>: Those who have already built a "core" portfolio of Index or Large-cap funds and want "satellite" exposure for higher returns.
- <u>Long-term Horizons</u>: A minimum of 5–7 years is required to ride out the inherent volatility.
- <u>Portfolio Simplifiers</u>: If you are tired of tracking 15 different funds, 2 high-quality Focused Funds can often do the heavy lifting of a dozen smaller ones.

Crescent MFD Takeaway: Focused funds are like a high-performance sports car. They can get you to your goal faster, but they require a skilled driver (Fund Manager) and a passenger (Investor) who doesn't panic at high speeds.