



Investing in the healthcare theme: Choose sector mutual funds or ETFs that also give overseas exposure

By Jash Kriplani

Mutual funds continue to roll out schemes based on themes or sectors that are the 'flavour of the season.' As the COVID-19 pandemic continues to rage, benefitting the pharmaceutical segment, mutual fund schemes that invest in the healthcare sector are back in focus. Positioned as healthcare funds, these were known as pharmaceutical schemes years ago. ICICI Prudential Healthcare ETF just closed for subscription on May 14, 2021, after its new fund offer (NFO) period ended.

Axis Healthcare ETF, too, closed its NFO on May 10, 2021. Both ETFs will get listed soon. A draft offer document of soon to be rolled out Aditya Birla Sun Life Nifty Healthcare ETF has been filed.

These funds aim to mimic healthcare indices that consist of pharmaceutical companies, hospital chains and diagnostic firms.

What are healthcare ETFs?

Unlike regular healthcare and pharmaceutical funds that are actively managed, healthcare ETFs mimic the performance of the Nifty Healthcare Index. Also, the units of healthcare ETFs can be traded on the exchanges. These passively-managed schemes hold healthcare companies, in the same proportion as in the index.

As these are exchange traded products, you will need a demat account to buy the units of the ETFs.

What works

As there is no active fund management involved, it eliminates the fund manager risk. "There is no risk of a fund manager's stock selection going wrong, as the ETF is just sticking to the index's allocation," says Vishal Dhawan, founder and chief financial advisor of Plan Ahead Wealth Advisors.

ETFs also come with lower expense ratios than regular healthcare sector funds. To be sure, there are other charges for transacting on the exchanges such as brokerage and securities transaction tax. But all those charges will have a marginal impact if you hold the ETF for the long term.

What doesn't work

Investing in a healthcare ETF might pose concentration risks. The Nifty Healthcare Index has 20 stocks, with largest holding, Sun Pharmaceuticals, accounting for 20 percent of the index weight. This is followed by Dr Reddy's (18.4 percent) and Divi's Laboratories (15.23 percent). Actively-managed funds such as ICICI Prudential Pharma Healthcare and Diagnostics (P.H.D) are more diversified. The top stock in the ICICI Prudential PHD fund accounts for 10.37 percent of the assets. The full portfolio consists of 29 stocks.

Financial advisors say it would be better to invest in products that offer exposure to international healthcare companies, besides domestic pharma firms.

"India has strengths in certain parts of the healthcare supply-chain, but we are not strong in several other parts. However, globally there are listed companies that focus on vaccine manufacturing and other critical areas," says Dhawan.

"After COVID-19, every country has realised the need for spending more on healthcare, so good growth is expected in this sector. So far, most advanced research has been happening overseas," says Ravi Kumar TV, co-founder of Gaining Ground Investment Services.

DSP Healthcare Fund and Edelweiss and MSCI India Domestic & World Healthcare 45 Index Fund allow investors to invest in pharma companies listed in overseas markets, but we could see more fund houses launching funds that allow such investments in the coming months. Tracking errors in ETFs can be quite large, especially on days when the volatility is high. So, investors should check if the ETF is closely tracking the index or they might end up overpaying for the ETF.

Moneycontrol's take

You should use sector funds of any kind only as a part of your satellite portfolio, to complement your existing equity and debt investments.

While ETFs offer low-cost alternatives to actively-managed sector funds, thematic or sector indices can be heavily concentrated.

Further, an ETF investing in a domestic index, will only give you exposure to domestic healthcare companies. However, an index or ETF investing in global healthcare companies will give you exposure to companies with more diverse businesses and larger global footprint. Moneycontrol advises taking exposure to the healthcare space via funds that offer international exposure as well. Just make sure your existing portfolio is well-diversified with rock-solid plain-vanilla diversified funds, before you invest in such thematic schemes.