

# How to create a balanced portfolio using core-satellite investing strategy: Meaning, allocation and benefits

The core-satellite investing strategy helps you build a balanced portfolio by combining passively and actively managed funds. Through passive investing, you can invest in low-cost and stable options, while through active investing, you can explore new opportunities emerging in the market.

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How to create a balanced portfolio using the core-satellite investing strategy (AI-Generated Image)

The core-satellite investing strategy helps investors build a balanced portfolio by combining passive and actively managed investments. It is a portfolio construction approach designed to balance returns, risk, and costs.

Through passive investments, investors gain exposure to low-cost and relatively stable options, while active investments allow them to explore emerging opportunities in the market. This approach enables investors to benefit from the strengths of both investing styles.

Here is a closer look at the core-satellite investing strategy, how to build a portfolio using it, and its key advantages and limitations.

## What is the core-satellite investing strategy?

In simple terms, the "core" forms the foundation of an investment portfolio. It typically consists of passive investments such as index funds or exchange-traded funds (ETFs) that track benchmark indices, providing broad diversification at a relatively low cost.

The "satellite" component represents additional investments that investors actively select. These may include actively managed funds, sector-specific investments, thematic opportunities, or individual stocks designed to generate returns above the benchmark.

## How to create a portfolio using a core-satellite investing strategy?

Here are the key steps involved in building a portfolio using the core-satellite approach.

### Understand the role of the core and satellite portfolios

Before building a portfolio, investors should clearly understand the purpose of each component.

According to Prabhakar Kudva, Director and Principal Officer – Portfolio Management Services, Samvitti Capital, "The idea is simple. Your core is where the bulk of your money sits and works quietly over years, and your satellite is where you take your shots.

"The core should be built around secular growth themes and sectors, the structural stories that play out over a decade, not a quarter. Within those sectors, you are the leader. These are businesses that tend to compound through cycles and that you can hold without losing sleep.

"The satellite portion is more opportunistic and actively managed: tactical positions, emerging themes, special situations, areas where you take a view with the intent of adding something extra. Core is conviction and patience. Satellite is where you express your edge."

In simple terms, the core portfolio provides stability and supports long-term wealth creation, while the satellite portfolio allows investors to seek incremental alpha.

### Decide the allocation between core and satellite

Once the structure is clear, investors need to determine how much capital should be allocated to each component.

Kudva suggests that a typical allocation is 80% to the core portfolio and 20% to the satellite portfolio. However, the exact split can vary depending on an individual's risk appetite, investment horizon, and financial goals.

"The principle matters more than the exact number. The core, by definition, should remain the majority. That's what makes it the core.

"The satellite is only there to generate incremental alpha opportunistically. It is not meant to become the main act. Investors with a longer horizon and a higher risk appetite can allocate slightly more to the satellite portion.

"Those who want stability and cannot stomach sharp market swings should keep it tighter. But if the satellite starts crowding out the core, you've stopped doing core-satellite investing and started doing something else entirely," he says.

### Review the portfolio

Creating a portfolio is not a one-time exercise. Investors should review and rebalance their portfolios periodically to ensure allocations remain aligned with their objectives.

Kudva recommends reviewing the portfolio at least once every quarter, preferably during the earnings season.

"At least once a quarter, anchored to quarterly results. Earnings season is when you get to see how your companies are performing against your original thesis, whether the secular story remains intact, and whether anything needs trimming or adding.

"Reviewing more often than that usually invites noise and overtrading. Once a quarter, with the numbers in front of you, is about right," he says.

### Benefits of the core-satellite investing strategy

1. Combining core investments with growth-oriented satellite investments helps you achieve the right mix of passive and active management.
2. The core portfolio acts as a stable foundation and helps cushion the impact of market volatility, while satellite investments help you earn better returns in bull phases.
3. Since the core allocation is usually invested in low-cost index funds or ETFs, overall portfolio expenses remain relatively low.

### Limitations of the core-satellite investing strategy

1. There is no fixed rule for the ideal core-satellite split. Choosing the wrong allocation may result in excessive risk or lower-than-expected returns.
2. As financial goals, income, or risk tolerance change over time, the original portfolio allocation may no longer be suitable, and you need to make required adjustments.
3. Your satellite investments may fail to generate the expected excess returns or even underperform the broader market, even in bull phases.

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