FLEXICAP YOUR MUTUAL FUNDS THROUGH CHOPPY WATERS

With a robust plan, limit your losses with large-caps while reaping in benefits with strong mid- and small- cap

Vidit Bhura & Nitish Purohit
Partners, JNV Financial Services

When deciding to invest into equities through mutual fund, one is faced with a plethora of choices. The challenge ahead is to decide which is the category of fund to invest into. Should it be large cap, large and midcap, multi cap, midcap or small cap. If large cap fund gives you stable returns, then mid and small cap funds presents higher growth potential. Amidst all these if you are wondering for an option which can be considered best of both the worlds, then you are looking for a flexicap fund.

What are flexicap funds?

Flexicap fund, as a category of equity mutual fund was introduced only in November 2020. This was following the rule that multi cap funds have to mandatorily invest at least 25 per cent each in large, mid and smallcap stocks. This minimum investment rule impacted the flexibility fund managers had when it comes to invest as per the changing market conditions. Flexicap as a category was introduced to address this deficiency. Here, the fund manager had no restrictions whatsoever in terms of allocation and is free to invest across market capitalisations.

The investment call in a flexicap fund is largely based on valuations and earnings potential. If large caps are cheaper, the fund will have higher exposure in them and if mid and small cap offer higher valuation comfort, then the portfolio will be tilted towards them. As a result of this flexibility, the fund provides the fund manager a wide canvas when it comes to making investment choices. This dynamic nature to navigate across market capitalisation makes tends to aid in delivering encouraging returns across market cycles. Thus, flexicaps can act as good compounders over long-term with relatively lower risk when compared to mid and small caps funds.

> **"Even while the equity markets have rallied, there are a few pockets where valuations continue to be reasonable. This is the time to invest in select opportunities and this is what a flexicap fund does."**

Best category in existing situation

With the Indian equity markets hovering around all-time highs, the valuations have turned expensive for most stocks across market capitalisation. Reflecting on the prevailing situation, even the Reserve Bank of India in its annual report mentioned that a bubble seems to be building in the stock market, but 'two-way price movements' are possible. Given the evolving developments around pandemic situation and global growth recovery, it is very likely markets may remain volatile in the near term. The markets is faced with positive triggers such as economic recovery and earnings growth, while negative triggers such as rising US 10-year treasury yields and inflation holds the potential to cast a long shadow on the market.

Given these uncertain times, it makes sense to invest into a product which offers flexibility in terms of investment. Even while the equity markets have rallied, there are a few pockets where valuations continue to be reasonable. This is the time to invest in select opportunities and this is what a flexicap fund does. The idea here is that if negative triggers play out, large caps will help limit downside as well established large companies can weather market challenges more easily than mid and small caps. On the other hand, if positive triggers make their way, fundamentally strong mid and small cap companies can have good re-rating potential and can lead to better capital appreciation. Because of this flexibility, having exposure to this category can be helpful especially when it comes to meet long term financial goals.

Takeaway

To conclude, just as a sturdy ship navigates across different weather conditions, a flexicap fund with a robust model aims to work across all market conditions. Just the way a ship's captain will assess risk factors, speed and time; a flexicap fund manager will constantly analyse macro-economic factors to allocate appropriately between Large/Mid/Smallcaps. For those looking to make an investment in this category can consider a staggered investment approach in the current market environment.