ET IN THE CLASSROOM

Flexicap Funds Are a Good Starting Point

For investors making an entry into equity mutual funds or moving some money away from deposits, financial planners believe flexicap funds are a good starting point. Financial planners believe these are all-weather funds and should form a core allocation of an individual's equity portfolio.

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WHAT ARE FLEXICAP FUNDS?

According to regulatory guidelines, a flexicap mutual fund category is one in which the fund manager can choose to invest across companies of any market capitalisations, be it large, mid- or small-cap companies, without restrictions. The fund manager has the complete freedom here unlike other categories, where they need to allocate a fixed amount to a category. A flexicap scheme needs to have a minimum investment in equity and equity-related instruments of 65% of the total assets of the scheme and the fund manager is free to choose a suitable benchmark.

HOW LARGE IS THE FLEXICAP CATEGORY?

Flexicap is the largest category in the equity mutual fund space, with many funds in this space being flagship schemes for the fund house. All the schemes put together manage a total of ₹3.90 lakh crore of assets. There are 39 schemes in this category.

WHY IS A FLEXICAP FUND THE PREFERRED CATEGORY?

Schemes in large-cap, mid-cap, small-cap and multi-caps have restricted mandates and are required to stick to the companies that are defined by marketcap. For example, a large-cap fund will have to invest a minimum of 80% in companies ranked 1 to 100 by market capitalisation, while a mid-cap fund needs to allocate at least 65% of its portfolio to companies ranked 101-250 by market capitalisation and a small-cap fund needs to invest 65% in stocks ranked 251 and below. Such schemes also work for investors who on their own are unable to decide whether to opt for large-cap, mid-cap, small-cap, multi-cap, or sectoral funds.

WHO SHOULD CONSIDER FLEXICAP FUNDS?

Wealth managers believe these are all-weather funds for any equity investor. Long-term investors or first-time investors, who do not want to take the trouble of individual stock selection, and want to make a long-term allocation to Indian equities, can opt for flexicap funds. Investors looking for just one fund in their portfolio where the fund manager makes a decision and gives them access to the best bets in the market irrespective of market capitalisation with the aim to balance risk and volatility and help them accumulate wealth to meet long-term goals can consider the flexicap category as a core portfolio allocation. Investors looking to stagger their investments through systematic investment plan (SIP) could also look to using this category of funds.

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