

Flexicaps fail to flex muscle as schemes stick to largecap bias

Flexicap fund managers maintain over 60% allocation in largecaps consistently, say experts

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Despite their ability to dabble freely in small and midcap stocks, the returns of flexicap funds over the past one year have paled in comparison to those of multicaps, another category that straddles the large, mid, and smallcap segments but has to commit to at least 25 per cent allocation to each of those.

Comparing one-year returns of flexicap funds with those of active largecap funds shows, on average, the former have delivered higher returns of only 4 percentage points.

As of January 10, flexicap schemes have delivered a one-year return of 31 per cent as against 27 per cent by largecap funds.

The multicap category has generated a one-year return of 37 per cent. Meanwhile, the average returns for midcap and smallcap funds stand at 43 per cent and 48 per cent, respectively.

Experts say these are expected, considering that most flexicap fund managers maintain over 60 per cent allocation in largecaps consistently.

Further, they say flexicap returns tend to mirror those of largecaps, which themselves put in around 20 per cent of the corpus in midcap and smallcap stocks.

"While flexicap funds can invest into the various market cap segments in any proportion, the corpus of many of these has been tilted towards largecaps in the recent past. Given that largecap funds too have the leeway to go out of the largecap space, the allocation to market caps could become similar to an extent at times," said Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors. In the one-year period, the Nifty 50 (total return index, or TRI) has



ILLUSTRATION: BINAY SINHA

gone up 22.5 per cent while the Nifty Midcap 100 TRI and the Nifty Smallcap 100 TRI have gone up 52 per cent and 62 per cent, respectively.

The Nifty 500 TRI, which is the benchmark of most flexicap schemes, has gone up 29 per cent, shows the data from Bloomberg.

Mutual-fund officials say the reason for a higher largecap allocation is the risk perception of flexicap funds. According to them, flexicap funds are considered a comparatively low-risk offer in equity.

It is placed at second spot in risk, preceded by largecap funds and followed by large and midcap funds, multicap funds, midcap funds, smallcap funds and thematic funds.

"Flexicap funds are placed on the conservative side of the risk ladder in the equity space. That's why the majority of the allocation goes into large

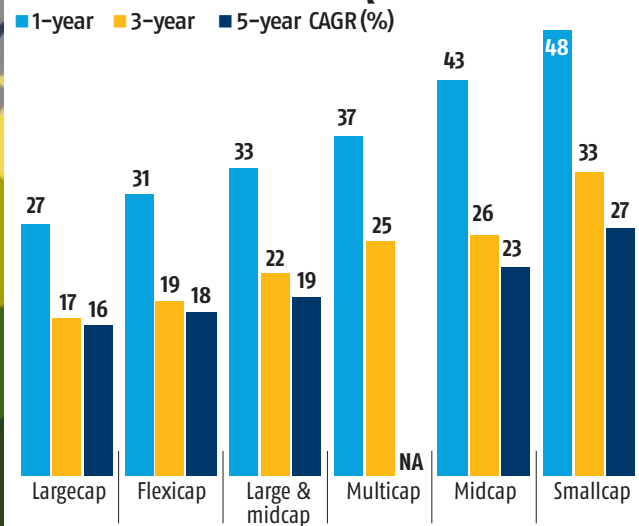
caps. The multicap category is where the allocation to different m-cap segments is more proportional," said Harsha Upadhyaya, chief investment officer (equity), Kotak MF.

"Flexicap schemes are perceived to be a comparatively low-risk product in the equity space. Hence, while flexibility is there in terms of higher allocation in midcaps and smallcaps, fund managers maintain a largecap bias," said Chintan Haria, principal investment strategy, ICICI Prudential AMC.

According to officials, though fund managers have the flexibility to invest in midcap and smallcaps in any proportion they want, a higher allocation will go against the perceived risk in the fund.

Flexicap funds are the biggest category in the actively managed equity space with assets under management of ₹3.27 trillion at the end of 2023.

RETURN SNAPSHOT: EQUITY FUNDS



As on January 10

Source: Value Research

Most advisors recommend flexicap funds as the first offer in the equity mutual-fund space, considering a risk-reward proportion better than other offers and the higher flexibility with the fund managers to tap the opportunities across m-cap segments and sectors. "For any investor with a long investment time frame, 50-60 per cent allocation in flexicap funds makes sense, given that the risks are lower and the flexibility they have compared to multicap funds. The rest can be allocated between midcap and smallcap funds," said Rushabh Desai, founder of Rupee With Rupee Investment Services, adding that though flexicap funds may not have done much better than largecap funds, on average, at individual level there are many schemes that have delivered significantly higher returns.