



What should investors of multi cap funds do?

By Sumaira Abidi

Much has been written about the stock impact of market regulator Sebi's circular on multi cap funds, but not enough about the options available to the investors/unit holders of the same schemes.

Multi cap funds are among the two largest categories of equity mutual funds. As of August-end 2020, multi cap funds managed assets to the tune of Rs 1.46 lakh crore.

Mutual Funds: The Equity Kitty	
	AUM as of August 31, 2020
Large cap funds	Rs 1.49 lakh crore
Multi cap funds	Rs 1.46 lakh crore
Midcap funds	Rs 88,700 crore
Large & midcap funds	Rs 57,700 crore
Small cap funds	Rs 52,000 crore
Value/Contra funds	Rs 53,100 crore
Focused funds	Rs 53,000 crore
Thematic/Sectoral	Rs 66,000 crore
ELSS	Rs 98,700 crore
<i>#Source: AMFI</i>	

According to the October 2017 definition by SEBI, multi cap funds could invest in stocks across market capitalisation without any restriction as long as a minimum of 65 percent of the corpus was invested in equity and equity related instruments. But, that changed all of a sudden last Friday. Under the new rule, these funds will have to invest a minimum of 75 percent of their total assets in equity and equity-related instruments. Also, the funds will have to invest a minimum of 25 percent of their corpus in

each of the three categories of stocks—large caps, mid caps and small caps.

An analysis of the top 20 multi cap funds shows that four had over 80 percent invested in large cap stocks, 14 had between 50-80 percent invested in large cap stocks and only two had less than 50 percent allocation to large cap stocks. In the same universe, 16 funds had single-digit allocations to small cap stocks.

So, the investors who had put in money in these funds drawn to their stable structure is now at a crossroad, trying to decide if they want a high exposure to the notoriously volatile small cap stocks.

Ironically, SEBI's decision to have more investments into mid and small cap funds comes within hours of the fifth largest small cap scheme (SBI Small Cap Fund) announcing that they would stop accepting lump sum investments as they couldn't justify investing into small cap stocks at such demanding valuations.

So, if you have investments in multi cap funds, what are your options?

Frankly, it once again comes down to asset allocation. The advice will greatly vary for someone who had a large cap fund in combination with a multi cap funds than another person who held a multi cap fund in combination with a small cap fund.

As well, much will depend on how the funds themselves behave. Will they accommodate these changes? or merge into another scheme? or change character to a thematic or even a focused fund?

Here are some opinions from a cross section of investment advisors.

Anshu Kapoor, Edelweiss Financial Services: From the mutual fund industry perspective, lot can happen before that. AMCs can also undertake reclassification or swap of their schemes. There is talk about the definition of market cap changing itself. The speculative mind will suggest increasing allocation to small caps but as a long-term investor, one should stick to asset allocation. Allocation of 70:30 into large and mid/small is ideal. If one wants to allocate more, you will need to do it right away. No point reacting late.

Feroze Azeez, Anand Rathi Private Wealth Management: SEBI's new regulations on multi cap funds is only logical. All funds in a certain category tend to converge in the aspiration to look good in peer-group benchmarking. The agility which is currently provided is seldom used and most had turned out to become large cap funds basically.

Mohit Gang, Moneyfront: For investors holding multi cap funds in their portfolio, it's a wait and watch scenario this month. If the scheme gets reclassified as focused or large and midcap or as any other thematic category, then one can continue to hold. If in terms of asset allocation, small cap or midcap composition is very small and scheme will have to allocate huge funds (by selling large caps) to comply with new guideline then one should reconsider allocation.

If the existing multi cap scheme is has a small AUM, say below Rs 4,000 crore or if the incremental allocation towards mid/small category won't be large, then also one can continue to hold as the impact won't be significant. Investors will also have to check the impact on overall mid/small cap allocation in a portfolio due to this change. If that's within the investor's permissible risk tolerance, then one could continue holding the schemes. For fresh allocations, it is better to avoid the category for some time and move towards focused or large and midcap category.

Hemant Rustagi, Wiseinvest Advisors: Investors who rely on multi cap funds to own a truly diversified portfolio across all three market caps will actually be able to get one now. However, those who want a bias towards large caps will have to invest in a mix of funds and manage their portfolios more actively.

Kalpesh Ashar, Fullcircle Financial Planners & Advisors: Existing mutual fund investors in multi cap funds ideally should not panic. With this new fixed allocation decided by Sebi, it would be prudent to first analyse your overall mutual fund portfolio along with your financial advisor and reassess your existing allocation towards each of the categories i.e large, mid and small. Given that the multi cap funds henceforth will have at least 50 percent allocated towards mid and small caps which are volatile you can then accordingly take a call on the necessary reshuffling if required.

Kirtan Shah, CFP: Multi cap investors should wait for a bit and see if the AMC is changing the category of the fund. If the AMC changes the category to focused or large and midcap fund, I believe it will be very similar to the existing multi cap. If it is changed to so other category like say value fund, then analyse it with respect to the existing strategy of the fund. If the AMC sticks to the multi cap category, analyse to see if it fits your risk profile and if not, exit.

Vishal Dhawan, Plan Ahead Wealth Advisors: Multi cap fund investors should not take any knee jerk reactions with their existing holdings or ongoing SIPs based on these regulations as they will take approximately 6 months to come into effect. Also, different multi cap managers may choose different paths from restructuring their portfolios to choosing to reclassifying their schemes in a different category. One also needs to remember that multi cap fund managers were allowed to go into any category of stocks earlier as well, so this may be a little restrictive going forward, especially if valuations in mid or small caps are inflated.

Pankaj Mathpal, Optima Money Managers: AMCs may re-categorise their multi cap funds to large and midcap funds or focused equity funds, wherever possible. Though one AMC cannot have more than one scheme in one category and hence it will not be possible for all AMCs. Investors should wait for clarity from AMCs in the coming days. Otherwise, investors who don't find small cap exposure suitable for them have the choice of switching to existing large and midcap fund or focused fund. For investors who want a proper allocation across market capitalisation should stay invested in the scheme. I personally agree with Sebi's decision because the category is multi cap and not flexi cap.

Amit Bivalkar, Sapient Wealth Advisors: There is a thought process that funds might want to shift away from the multi cap segment and redesignate themselves as large and midcap funds, we will have to wait and see. Given that this move will raise demand in the small cap segment and hence capital-starved promoters can raise money and restart business (essentially given promoters access to capital, as banks have been skeptical to lend to this segment), SEBI might not give fund houses the leeway to shift. It might be wise to revisit the flexi cap category and allow

MFs to relaunch that category because fundamental investing is market cap agnostic.

In a twitter poll I conducted, 56.7 percent of 668 respondents voted that investors of multicap schemes should stay put. 31.4 percent said investors should consider redeeming and shifting to a large cap fund. 11.8 percent voted for 'others'. Replies varied from 'invest more into multi cap funds' to 'decision depends on asset allocation' to 'wait for AMC to make their decision'.

A lot does depend on how fund houses plan to either implement the new rules or work around being forced to dive head first in the ever-volatile small cap universe. As with most things in life, there is no one size fits all. But, the underlying theme to any decision to alter your existing mutual fund portfolio should ideally be driven by asset allocation principles.