



Limits on Multi-Cap Fund Investments

Why in News

Recently, the [Securities and Exchange Board of India \(SEBI\)](#) has **imposed some limits** on **multi-cap funds**.

Multi-Cap Fund

- Multi-cap funds are those that **diversify their investments** into all three categories (small, medium, and large-cap).
- These funds invest by **market capitalization of shares**.
 - **Market capitalization** is the aggregate valuation of the company based on its current share price and the total number of outstanding stocks.
 - It is calculated by multiplying the current market price of the company's share with the total outstanding shares of the company.
- **Large cap stocks:** Stocks of top 100 listed companies in terms of full market capitalisation.
- **Mid-cap stocks:** Stocks of top 101 to 250 companies in terms of full market capitalisation.
- **Small-cap stocks:** Stocks of companies above 251 in terms of full market capitalisation.

Key Points

- **Changes Made:**
 - A multi cap fund will be required to **invest a minimum of 75%** of its total assets in equities and equity-related instruments.
 - At present, the rule is to invest a minimum of 65% in equities.
 - Minimum investment of **75% has to be allocated in between** large cap companies, mid cap companies and small cap companies, with a **minimum share of 25% in each**. The rest 25% can be invested as per the investor's choice.
 - Till now, fund managers of multi cap mutual funds were investing across market capitalisation as per their choice.
- **Reason:**
 - The changes have been done **to diversify the underlying investments** of multi-cap funds across the large-cap, mid-cap and small-cap companies and be true to the label.
 - Currently, the portfolio of most multi cap funds is **biased towards large caps** with 65% to 90% of their portfolio in large cap stocks.
- **Impact:**
 - Fund houses will have to cut their exposure to big cap stocks and invest in mid- and small-cap stocks.

- This will result in up to Rs. 40,000 crore moving from largecap to broader market (mid-cap and small-cap fund).

Source: IE

PDF Refernece URL: <https://www.drishtias.com/printpdf/limits-on-multi-cap-fund-investments>