

Sebi made flexi-cap funds free to go anywhere. Most stayed in large caps

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Maxim: *Check what your fund actually owns.* — Dhirendra Kumar

A fund's name tells you what it is allowed to do. Its portfolio tells you what it actually does. The two can drift a long way apart.

The label on a mutual fund is a promise about what the manager may do, not a report on what the manager has done.

In September 2020 India's market regulator tried to make one label honest. Multi-cap funds, which were meant to invest across companies of all sizes, had in practice leaned heavily towards large companies. Sebi's answer was blunt: within a few months, every multi-cap fund would have to keep at least 25% each in large, mid and small companies. The category then held about ₹1.45 lakh crore across 35 schemes, [Morningstar India](#) noted, and [Moneylife](#) estimated that around ₹35,000 crore might have to move out of large caps to comply.

The industry pushed back. Within two months, in November 2020, Sebi created a new category called flexi-cap, which required at least 65% in equities and set no limits on company size. Most fund houses were expected to move their multi-cap schemes into it, Morningstar reported, and many did. The funds kept their old freedom under a new name.

Six years later, Dhirendra Kumar of Value Research checked what that freedom had been used for. In a [June 2026 column](#), he found that "most flexi-cap funds keep three-fifths of assets in large caps and have for six years", through a crash, a recovery and more than one bull market. The freedom, he wrote, "has, for most funds, gone unused". His explanation was human rather than sinister: large funds find it hard to move into smaller companies, managers fear lagging the benchmark, and familiar, liquid stocks feel safe. "You can rename a category. You can prescribe its allocations. You cannot force fund managers to have conviction."

Why the gap between label and portfolio matters

None of this means a flexi-cap fund heavy in large caps is a bad fund. It may be well run and reasonably priced. The problem is narrower and more personal: it may not be what you thought you bought.

An investor who chose a flexi-cap fund to get exposure to mid and small companies, alongside a separate large-cap fund, may in effect own two large-cap funds. Their portfolio is less diversified than it looks, and they may be paying active-management fees for something close to what a cheaper index fund would provide. Kumar's verdict on such a fund was precise: "The holding is no longer the one you chose."

The problem is old. When Sebi [reorganised the industry](#) in October 2017, it had to define for the first time what a large company was: the top 100 by market value, with mid caps ranked 101 to 250 and small caps below that. It also limited fund houses to one scheme per category, to stop the launch of near-identical funds and make choices clearer. Before that, two funds with similar names could hold

quite different things. Rules have narrowed the gap, but they cannot close it. Within each category, managers still have wide discretion.

The information is already in your hands

The good news is that Indian fund investors get detailed portfolio information as a matter of right. Under Sebi's disclosure rules, summarised in fund houses' investor charters such as [Canara Robeco's](#), every scheme must publish its full portfolio within 10 days of each month's end, and debt schemes every fortnight. Monthly factsheets add the split by company size, the top holdings and the sector mix. Most investors never open them.

A short annual routine is enough:

1. **Read the market-cap split.** In the factsheet, check how much sits in large, mid and small companies. Compare it with what you expected when you bought.
2. **Look at the top 10 holdings.** If they look like the top of the Nifty 50, your fund is behaving like a large-cap fund, whatever its name.
3. **Compare your funds with each other.** If two of your funds share many of the same top holdings, you are paying twice for one exposure.
4. **Compare with a cheap index alternative.** If an active fund's portfolio and returns closely shadow an index, ask what its higher fee is buying.
5. **Watch for change.** A sudden shift in sector mix, cash levels or company size can signal a new strategy, a new manager or a fund under pressure.

A simple decision rule. Once a year, compare each fund's actual portfolio with the role you bought it for. If the two still match, do nothing, whatever last year's returns were. If a fund has drifted into a different role, follow Kumar's advice and act gradually: direct new money to a fund that better fits the job, rather than selling everything at once and triggering tax and exit loads. Only switch outright if the drift is large and permanent, or if you are paying active fees for index-like holdings.

Kumar warns against reacting to every new statistic, and he is right to; restlessness has cost investors more than most market falls. But checking what you own is not restlessness. It is the minimum due diligence for money you plan to leave alone for years. The regulator can define categories and force disclosure. Only you can open the factsheet and ask whether the fund still does the job you hired it for.

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