



PR No.46/2020

Clarification pursuant to Circular dated September 11, 2020 - Regarding Asset Allocation of Multi Cap Schemes of Mutual Funds

SEBI's 2017 circular on scheme categorization sought to achieve two objectives:

- True to Label schemes: The portfolio should reflect the name of the scheme and the name of the scheme should correctly reflect the nature of the portfolio.
- Comparison with an appropriate benchmark: The scheme performance should be disclosed to the investors vis a vis an appropriate benchmark.

For example, Large Cap schemes could have a benchmark of Sensex or Nifty 50 and at least 80% of the portfolio should be invested in Large Cap stocks.

Multi Cap schemes had flexibility in terms of allocation to Large, Mid and Small Cap stocks. However, it has recently been observed that some Multi Cap Schemes have skewed portfolios, with over 80% of investment in large cap stocks akin to Large Cap schemes, and some Multi Cap schemes have near zero or insignificant asset allocation to small cap companies.

Considering the above, in order to achieve the objectives of True to Label and Appropriate Benchmark, a need was felt to review the scheme characteristics of Multi Cap schemes and take necessary steps to clearly distinguish Multi Cap schemes from other category of schemes.

In this context, SEBI has issued a circular dated September 11,2020 on Multi Cap schemes of Mutual Funds, requiring them to invest a minimum of 25% each in Large, Mid and Small Cap stocks, with the balance 25% giving flexibility to the fund manager.

Some sections of media have reported various views on the circular and various conclusions in respect of the same are being drawn. SEBI would like to clarify that Mutual Funds have many options to meet with the requirements of the circular, based on the preference of their unitholders. Apart from rebalancing their portfolio in the Multi Cap

schemes, they could inter-alia facilitate switch to other schemes by unitholders, merge their Multi Cap scheme with their Large Cap scheme or convert their Multi Cap scheme to another scheme category, for instance Large cum Mid Cap scheme.

SEBI is conscious of market stability and therefore has given time to the Mutual Funds till January 31, 2021 to achieve compliance with the circular, through its preferred route of which rebalancing of the portfolio is only one such route.

It is reiterated that to achieve the desired objective of True to Label and Appropriate Benchmarking, SEBI will examine proposals of the industry, if any, received in this regard.

Mumbai

September 13, 2020