



What Is A MultiCap Fund And Its Types?

Introduction

Have you ever heard the phrase "jack of all trades, master of none"? When it comes to investing, being a "jack of all trades" can easily translate to multi-cap funds. Multicap funds are versatile mutual funds that can help you diversify your portfolio and potentially contribute to financial success. However, before you invest your hard-earned money, it is important to know answers to questions like what is a multi-cap fund, what are its types, and whether or not it offers any advantages. Keep reading to find out.

What is a multi-cap fund?

A multi-cap mutual fund is a type of equity mutual fund that invests in a diversified portfolio of stocks across various market capitalisations, including large, mid, and small-cap companies. Market capitalisation refers to the measure of a company's size and value. It is typically categorised into three main groups - large-cap, mid-cap, and small-cap, based on the total market value of a company's outstanding shares. Large-cap companies have the highest market cap, followed by mid-cap and small-cap companies.

As per the Securities and Exchange Board of India (SEBI) guidelines, multi-cap mutual funds invest at least 65% of their total assets in equities and equity-related instruments. However, multi-cap funds are flexible and may change their asset allocation between large, mid, and small-cap stocks depending on the market conditions.

Multi-cap funds are further bifurcated into different types. Let's find out more about them.

Types of multi-cap funds

Multi-cap mutual funds can be classified into the following types:

- **Large-cap-focused funds:** These equity funds invest more in large-cap funds, while the rest of the assets are invested in a mix of mid and small-cap stocks. Since they are more bent towards large-cap stocks, they may provide relatively stable growth.
- **Mid-cap or small-cap focused funds:** These equity funds give more weightage to mid and small-cap stocks, while the rest is invested in large-cap stocks. As a result, they may carry relatively more risk with a better potential for capital

appreciation.

- **No specific focus funds:** These multi-cap mutual funds do not focus on particular stocks. The asset allocation stays dynamic between large, mid, and small-cap funds depending on the fund manager's strategy. The risk and growth potential vary based on the exact asset allocation and market conditions.

What are the potential risks of investing in multi-cap mutual funds?

Understanding the risk involved in investing in a specific kind of mutual fund is essential to make an informed decision. Here are some risks of investing in multi-cap mutual funds:

- **Market volatility:** Multi-cap funds are equity funds and may be exposed to market volatility, especially if the fund focuses on small and mid-cap stocks. When the market is up, equity funds tend to perform well. But, when the market is going down, equity funds can experience losses. However, a long-term investment horizon can help ride out volatility, lower risk and create wealth.
- **Fund manager risk:** The fund manager's role is critical in multi-cap funds. These funds follow a dynamic allocation strategy where the manager decides where and when to invest. You can potentially lower this risk by researching well and picking a fund with a fund manager who has relevant experience and a history of good performance.

Along with the risks, you must also know how these funds are taxed.

How are multi-cap funds taxed?

Multi-cap funds are taxed as equity funds. They are subject to capital gains tax. Gains earned from funds held for less than a year are taxed at 15%, and gains from funds held for more than a year are taxed at 10% on profits exceeding Rs 1 lakh. This means a profit of up to Rs 1 lakh per annum is exempt, and tax is calculated and levied on amounts after that.

Conclusion

The objective of a multi-cap fund is to provide you with exposure to companies of different sizes, thereby diversifying your portfolio and potentially reducing risk. Remember to check the fund manager's experience and portfolio diversification before choosing a fund to benefit from investing in multi-cap funds.

An investor education initiative by Edelweiss Mutual Fund

All Mutual Fund Investors have to go through a onetime KYC process. Investor should deal only with Registered Mutual Fund (RMF).

For more info on KYC, RMF and procedure to lodge/redress any complaints, visit - <https://www.edelweissmf.com/kyc-norms>

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.