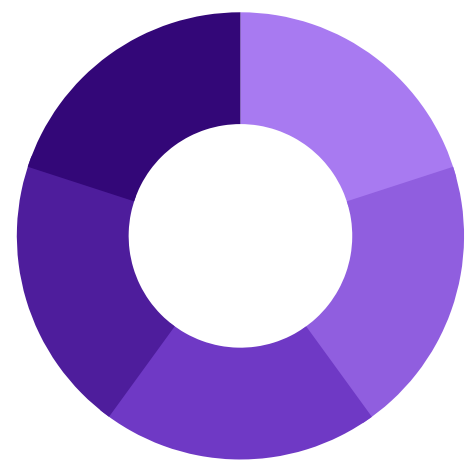




Finology

Recipe

BEST FLEXI-CAP FUND 2026



Power dynamics of the Flexi-Cap category

- Flexi-cap managers can reshape the portfolio to match the market's "shape" at any point in time.
- A flexi-cap fund can effectively behave like a large-cap, mid-cap, small-cap, hybrid, focused, value, contra, as long as 65% equity exposure is maintained.

How this plays out across market cycles-

Bear markets (2024-2025 corrections)

- Managers can shift 60%+ exposure to large caps (pharma, FMCG), often tilted toward defensives.
- Some managers hedge 13–15% of equity exposure using derivatives.

Bull markets (2021–2023 rally)

- The same fund can rotate to 50%+ mid and small-cap exposure.
- Portfolios may concentrate in a few sectors (tech+consumer durable) while keeping a 20%+ cash buffer to buy in the dips.

Volatile markets (Hybrid fund approach)

- Managers can use bonds (20-30% of allocation) for income generation and derivatives for downside protection while staying invested in equities.
- This approach can reduce volatility by ~2–3% annually without giving up upside.

Key conclusion

Flexi-cap as a category creates two main problems because there are no forced constraints:

- If the manager is skillful, the lack of constraints is a blessing.
- If the manager is mediocre, the lack of constraints is a curse (they have more ways to make mistakes).

**The manager's investment philosophy is the mandate here.
Your portfolio is highly sensitive to the manager's brain.**

Why do we believe bank-owned mutual funds are a bad fit for Flexi-Cap strategies?

The governance structure of bank-sponsored AMC's is designed to limit the full potential of a flexi-cap fund, not to maximise it.

The governance triangle and the conflict:

- **Sponsor (HDFC/ICICI Bank):** Objective is to maximise group-level profit.
- **Trustee:** Independent fiduciaries tasked with protecting unitholders (Often toothless against sponsor pressure).
- **AMC:** Executes investment decisions, but based on the sponsor's revenue strategy.

Core problem- A bank/large foreign sponsor has a built-in incentive to prevent any single scheme from becoming too dominant if it risks cannibalising AUM from other schemes.

- If a flexi-cap fund becomes the clear flagship, investors naturally shift money from other schemes into it.
 - While total AUM may remain unchanged, group-level revenue can fall because:
 - Sectoral and thematic funds typically carry higher expense ratios
 - Flexi-cap funds dilute that revenue mix
 - Uncontrolled flexi-cap dominance is bad business economics.
- The fund manager's "effort allocation" problem**

In large bank-sponsored AMC's, a senior fund manager often runs 10–20+ schemes. Including AIF, PMS scheme.

The question becomes simple: Where do the best ideas go?

Consider the incentive math:

- Scheme A (Large-Cap): AUM ₹20,000 crore | TER ~1% | Revenue ~₹200 crore
- Scheme B (Flexi-Cap): AUM ₹500 crore | TER ~1.2% | Revenue ~₹6 crore
- Manager's bonus is linked to total AUM growth & revenue.
- Improving Scheme A's performance by 2% has a 10x larger monetary impact on the AMC (and likely the manager's bonus) than the same effort on Scheme B.

Key takeaway

Flexi-cap investing demands unbiased capital allocation across market caps. So a pure-play or asset-manager-led AMC can unlock the flexi-cap's true potential without internal conflicts.

Our Flexi-Cap Fund Picking Framework

1. Minimum 10-year scheme track record

2. AMC should not run every equity category

An AMC running fewer, conviction-led equity strategies signals better idea allocation and accountability.

3. Clean AMC structure

We exclude

- Government-owned AMCs
- Bank-sponsored AMCs
- AMCs with investment banking or NBFC DNA
- Large conglomerate or foreign financial group-backed AMCs

These structures dilute capital allocation freedom and create internal conflicts.

4. Alignment with our value investing philosophy

The fund’s portfolio construction, turnover, cash discipline, and risk-taking behaviour must align with how we believe long-term wealth is actually created.

Criterion	Scheme Name	10-Year CAGR (Approx)	Why does it fit our Framework?
PPFAS	Parag Parikh Flexi Cap Fund	~18.5%	DNA: ZERO external business. No banking, no broking. Only manage money. Style: High-conviction, low-turnover value investing. Holds cash when valuations are high.
Quantum	Quantum Flexi Cap Fund	~20.8%	DNA: Independent boutique founded by Ajit Dayal. Strictly research-led with no financial group ties. Style: Strict valuation discipline (GARP/Value). They often underperform in bubbles but protect capital in crashes.

Fund recommendation

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Mutual Fund investments are subject to market risks, read all scheme-related documents carefully. The Net Asset Values (NAVs) of the funds may experience fluctuations, influenced by various factors affecting the securities market and changes in interest rates. Data, video clippings, graphs and/or information displayed on this report are for information purposes only.

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