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.

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

The governance structure of bank-sponsored AMCs 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 AMCs, 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.

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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

PPFAS MUTUAL FUND
There's only one right way©

Parag Parikh Flexi Cap Fund

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