

Finology

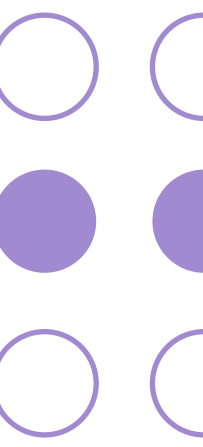
Recipe

BEST

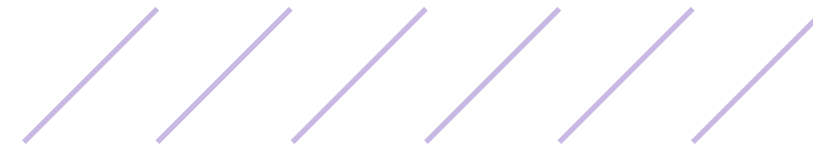
LARGE &
MID CAP

FUND

2026



1. To participate in large-cap consistent compounders, we focused on forced SEBI mandates that require a minimum large-cap exposure. This narrowed to Large Cap, Large & Mid Cap, and Multi Cap funds. Since Large & Mid Cap and Multi Cap funds carry mandatory mid-cap exposure, we added pure Mid-Cap funds to evaluate where returns are coming from and how they are generated.
 2. All funds of 4 categories were combined, classification and fund names were removed, and funds were studied purely on long and medium-term performance behaviour.
 3. Result: Mid-Cap funds dominate wealth creation in both 10-year and 5-year returns. This outperformance is not driven only by fund manager skill.
 4. Reason: The mid-cap universe carries graduation alpha (category migration), This free alpha purely exists due to SEBI's classification framework from the last 7-5 years and delayed timelines of announcement, from mid-cap to large-cap transition (bluechip status). At the same time, mid-caps come with higher earnings volatility and a narrow universe of ~150 stocks, increasing risk concentration.
 5. To capture maximum structural alpha with controlled risk, it naturally points to Large & Mid Cap funds with higher mid-cap allocation (40–50%) and quality large-cap anchors (50–40%).
- While searching for the next relevant mutual fund category, the starting point has to be one that carries a clear large-cap mandate. Why?
 - The top 100 large-cap companies already include proven consistent compounders with long operating histories and scalable business models.
 - Out of the top 100 large-cap companies:



- **15 companies have compounded at over 25% CAGR for a decade**
- (names include Bajaj Finserv, Titan, Bajaj Finance, TVS Motor, and Trent).
- 50 companies gave 14% CAGR over the last 10 years.
- If a fund manager can identify even a small basket of consistent large-cap compounders and systematically avoid PSU /commodity dominated and cyclical large-cap businesses, the portfolio outcome improves materially.

Only 3 mutual fund categories have a forced mandate of large-cap stock exposure:

Category	Minimum Mandatory Large-Cap Allocation
Large-Cap Fund	80%
Large & Mid-Cap Fund	35%
Multi-Cap fund	25%

- In our earlier video, we clearly explained why expecting an active large-cap fund manager to generate consistent alpha over the next 10–15 years is unrealistic.

So how do you participate in large-cap businesses in the most efficient way?

- To evaluate which fund managers have actually demonstrated sustained alpha creation in longer-term, we also included mid-cap funds.

- We combined all funds across 4 categories (73 funds with 10yr return data) :

Large-cap

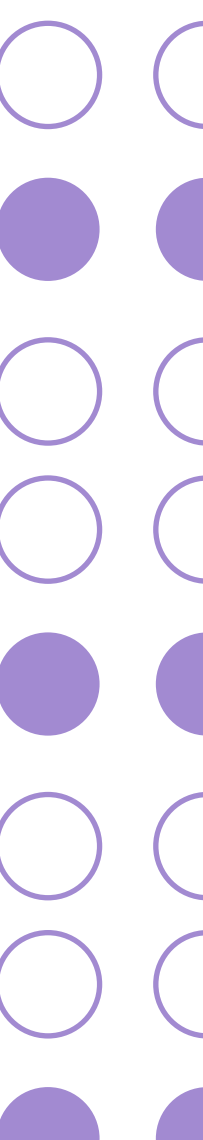
Mid-cap

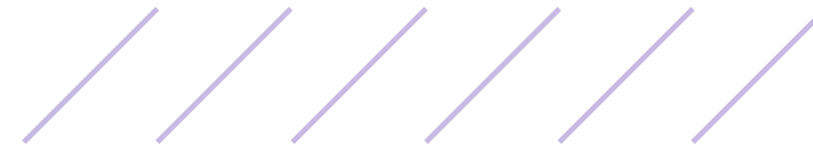
Large & Mid-cap

Multi-cap

We then studied their 10-year historical behaviour without labeling their to understand two things clearly:

1. How do different categories behave over a full market cycle?
2. Where genuine, repeatable alpha has actually shown up?





- This framework helps to pick the right category and the right funds, instead of relying on any fund managers narratives or recent performance.

Role of the Mid-Cap Category in alpha generation

Over the last 10 years

- 8 out of the top 10 funds with highest return are Mid-Cap funds.
- The highest 10-year CAGR return is ~20 %.
- The top Mid-Cap cluster in the 10-year list broadly ranges between 18 – 20% CAGR.
- We combine all 73 funds, and the overall 10-year average return comes to ~15.9% CAGR.
- Shockingly 81% of Mid-Cap funds (17 out of 21) beat this overall 10-year average.

Category	Total Funds	Avg 10Y Return	Funds Beating Overall Avg (15.9%)	% Beating Avg
Mid Cap	21	17.47%	17	81.0%
Large & Midcap	21	16.24%	14	66.7%
Multi Cap	6	16.20%	4	66.7%
Large Cap	25	14.18%	2	8.0%

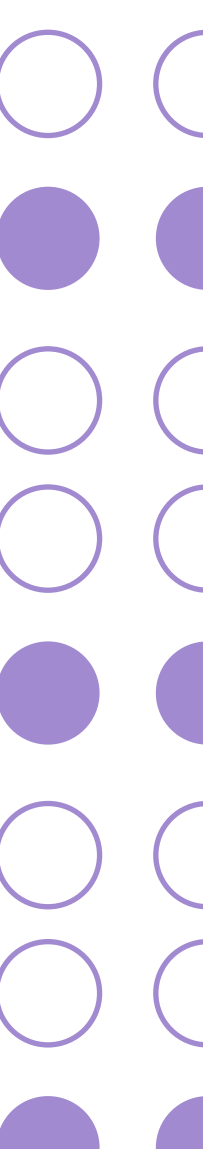
Over the last 5 years

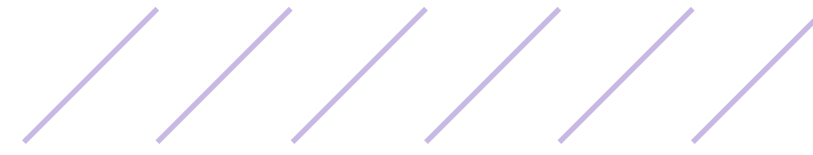
- 7 out of the top 10 funds are Mid-Cap funds.
- The highest 5-year return is ~ 30% CAGR.
- The top Mid-Cap funds in the 5-year list broadly deliver 25- 30% CAGR.

Role of the Large & Mid-Cap Category

Over the last 10 years

- Only 2 Large & Mid-Cap funds appear in the top 10, competing with midcap funds.
- The best Large & Mid-Cap 10-year return is ~18.6% CAGR.
- Return gap is 1.4% lower compared to top mid-cap funds.





Over the last 5 years

- Only 1 Large & Mid-Cap fund appears in the top 10.
- The best Large & Mid-Cap 5-year return is ~25.0% CAGR.

Muted role of Large-Cap & Multi-Cap

- No pure Large-Cap fund appears in the Top-10 of either the 5-year or 10-year tables.
- No Multi-Cap fund appears in the 10-year Top-10.

Why are Mid-Cap funds leading both long (10Y) and medium-term, despite having a relatively narrow universe of ~150 stocks?

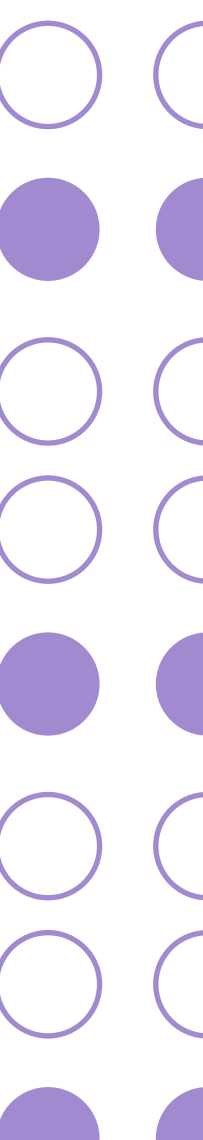
– Mid-cap funds' wealth creation is not only by fund managers' superior skill, but by a clear structural alpha embedded in the mid-cap universe itself.

Graduation Effect (A free source of alpha): When a company moves from being labelled a “mid-cap” to a “large-cap”, the business itself may not change overnight, but the market’s perception of scale, stability, and investability does.

A clear pattern has emerged over the last 7 years after SEBI’s reclassification rules (Post 2018) and Gap in AMFI announcement timelines:

- Pre-event (Mid-Cap Fund): Captures 50–150% re-rating as the company scales.
- Event (Graduation): the stock enters the Nifty Next 50 or Nifty 100 universe. Passive flows from index funds and ETFs begin. Many foreign institutions enter. Companies announce large capex plans and euphoric long-term narratives emerge.
- Post-event (Large-Cap Fund): Returns normalize to 14–20% CAGR or flatten.

Stock	Ann.	Price 6M Before	Price at Ann.	Price 6M After	Same Period Alpha Generated
IRFC	Jan 2024	₹33	₹104	₹178	+291%
Polycab India	Jan 2024	₹3,554	₹5,420	₹6,691	+76%
Varun Beverages	Jan 2023	₹392	₹658	₹801	+90%
Trent Ltd	Jan 2023	₹1,074	₹1,338	₹1,739	+55%



The average stock run-up is >100%, while post-transition returns are materially lower.

Conclusion :

Mid-cap fund managers generate alpha by -

- Identifying future large-cap candidates early
- Buying them before they cross the large-cap threshold
- Benefiting from both earnings growth and valuation re-rating

Why did we prefer Large & Mid Cap over pure Mid Cap?

- Mid-cap funds operate in a narrow universe of ~150 stocks
- With mandatory 65%+ mid-cap exposure increases stock-specific risk
- This leads to higher portfolio volatility
- Mid-caps have historically faced long stagnation phases

Example: Nifty Midcap 150

- Fell ~40–50% from Jan 2018 highs to Mar 2020 lows
- Many mid-cap Mutual funds took 3+ years to recover to 2018 levels
- Pure mid-cap fund investors saw almost 0% returns between 2018–2021

Large & Mid Cap advantage

To capture maximum structural alpha with controlled risk, this naturally points toward Large & Mid-Cap funds with:

- **Higher large-cap anchors (Above 40–50%)**
- **Moderate mid-cap allocation (Above 40%)**
- **Lower small cap allocation (0-5%)**

Filtration framework: **Initial List: 64 funds.**



Step 1 (10 yr existence history)

Filters for funds with at least a 10-year history.

Result: 21 funds left



Step 2 (Benchmark outperformance)

Filters for funds that beat the NIFTY Large and Mid Cap 250 rolling returns.

Result: 10 funds left



Step 3 (Category avg expense Ratio -0.66 %)

A final shortlist of funds based on lower expense ratios and consistent benchmark beating performance.

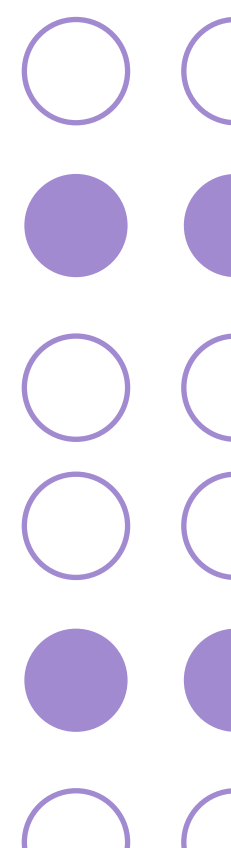
Result: 6 funds left

Funds	3 Yr Ret (%)	5 Yr Ret (%)	10 Yr Ret (%)	Expense Ratio (%)
Edelweiss Large & Mid Cap Fund - Direct Plan	19.13	20.19	16.5	0.42
Kotak Large & Midcap Fund - Direct Plan	19.36	20.01	17.23	0.55
Bandhan Large & Mid Cap Fund - Direct Plan	23.61	23.24	17.8	0.56
Mirae Asset Large & Midcap Fund - Direct Plan	17.46	18.6	18.5	0.57
Invesco India Large & Mid Cap Fund - Direct Plan	24.1	21.44	17.64	0.61
DSP Large & Mid Cap Fund - Direct Plan	20.61	20.28	16.84	0.61

Final Fund recommendation with our qualitative filter- (Large cap heavy & value investing tilt)



Kotak Large & Midcap Direct Growth



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