

# SEBI likely to Widen Mid-Cap Investable Universe for Mutual Funds by 150 Companies

Jash Kriplani | Mumbai Last Updated at February 12, 2020 22:57 IST

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The Securities and Exchange Board of India (SEBI) is likely to expand the Mid-Cap investable universe for Mutual Funds (MFs) by 150 companies, according to people in the know. This decision, likely to be made in the upcoming board meeting on February 17, will effectively double the number of Stocks available for Mid-Cap selection to 300.

Further, the large-Cap universe could get expanded by 25 Stocks, taking the total available to 125. Mutual Funds have, in the past, approached the markets regulator seeking more flexibility in Stock picking.

“Within Mid-Caps, most of the Mutual Fund flows were chasing the same set of Stocks on account of the Cap of 150. This was making it difficult for fund managers to generate alpha. SEBI could widen the Mid-Cap universe by 100-150 Stocks,” said a CEO of a fund house.

Alpha stands for the outperformance that Fund Managers generate against the Benchmark Returns.

An analysis of the BSE - 150 Mid Cap Index and the SEBI-mandated investable universe of Mid-Caps shows an overlap of 121 firms — an 81% per cent overlap. In the case of large-Caps, the overlap stands at 79% per cent for the benchmark BSE -100 index.

Mid-Cap funds are required to invest at least 65% per cent of their corpus in Mid-Cap Stocks, whereas large-Cap funds are required to invest 80% per cent in large-Cap Stocks, according to the current framework.

The new framework would effectively mean the top 125 Stocks (in M-Cap terms) will be classified as large-Caps, while those from 126-425 will be classified as Mid-Caps, according to the people. The remaining will form the Small-Cap pool.

Graph:

While allowing more Stocks could provide flexibility, some fear that a realignment could lead to challenges. Some say a change in the categorization framework will force Fund Managers to adjust their Portfolios again, and the re-shuffling could take another year.

“While the move would give some leeway, Money Managers will yet again have to adjust their Portfolios to account for the changes. Several changes had to be made after the framework was introduced a couple of years ago,” said a senior executive of another Fund house.

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Experts say managing Small-Cap funds could become more difficult. “Including more top Stocks in the large- and Mid-Cap universe would effectively mean Small-Cap funds will have to pick from Stocks with even lower market Cap,” said a fund manager, requesting anonymity.

In October 2017, SEBI had laid down the scheme categorization norms for Mutual Funds to make it easier for investors to select from the wide array of MF products. SEBI said the top 100 Stocks would be classified as large-Caps, those from 101-250 considered Mid-Cap, and the remaining as Small-Caps.

This universe of Stocks is based on the average six-month m-Cap of the companies.