



Policy for protecting the Interest of Investors in Small Cap and Midcap Funds

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Table of Contents

1. INTRODUCTION4

1.1 OBJECTIVE 4

1.2 TARGET AUDIENCE 4

2. LIST OF ACRONYMS4

3. SCOPE AND COVERAGE.....4

4. MEASURES5

5. POLICY REVIEW & UPDATE6

6. REFERENCES6

1. INTRODUCTION

LIC Mutual Fund Asset Management Limited (“the AMC”) is an investment manager to LIC Mutual Fund (“the Fund”). The AMC is responsible for managing the schemes launched by LIC Mutual Fund.

Midcap and Small Cap Stocks are inherently more volatile and less liquid as compared to largecap stocks.

The recent surge in retail investor participation and subsequent inflow of funds into small and midcap stocks, has led to valuation and liquidity concerns in this segment of the market. To address these challenges and safeguard investor interests, Association of Mutual Funds in India (AMFI) has directed the Mutual Funds to have a policy aimed at protecting the interests of all investors.

1.1 OBJECTIVE

This policy is aimed at protecting the interest of investors in small cap and midcap funds owing to risk associated with investing in small and midcap stocks, in a scenario of overvaluation, higher volatility and liquidity constraints. The policy details the approach to be followed in managing these risks.

By implementing the appropriate measures detailed herein below, the AMC shall strive to safeguard investor interests.

1.2 TARGET AUDIENCE

This policy should be readily accessible to Investment (Equity) and Risk team. The latest policy should be disclosed on the AMC’s website in the manner as may be prescribed by SEBI from time to time to ensure transparency of norms adopted.

2. LIST OF ACRONYMS

Acronym	Full Form
AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
BoD	Board of Directors
NSE	National Stock Exchange
SEBI	Securities and Exchange Board of India
IC	Investment Committee

3. SCOPE AND COVERAGE

The Policy is applicable to LIC MF Midcap Fund and LIC MF Small cap Fund.

4. MEASURES FOR PROTECTING THE INTEREST OF INVESTORS IN SMALL CAP AND MIDCAP FUNDS

Investment Committee (IC) shall evaluate the overall market conditions including the liquidity scenarios in Small Cap and Midcap Funds and may consider implementing the below mentioned measures in gradual and calibrated manner:

- i. **Monitoring of inflows:** Closely monitor the fund inflows on a periodic basis, incorporating metrics such as net asset flows, subscription patterns, and market liquidity conditions.
- ii. **Limiting excessive inflows:** Depending upon market conditions and liquidity scenario, IC may allow the following:
 - a) **Defensive Asset Allocation:** Asset allocation may be altered by the AMC for a short term period on defensive considerations by having higher allocation to debt and money market instruments or large cap stocks having higher liquidity subject to applicable conditions specified in the Scheme Information Document (SID) of the respective Scheme.
 - b) **Graduated Entry Mechanism:** Introduce a graduated entry mechanism where new investors are allowed to enter the fund in a phased manner, thereby reducing the impact of sudden influx of funds.
 - c) **Temporary Suspension of Inflows:** In the event of excessive inflows leading to market distortions or liquidity concerns, the AMC may consider implementing temporary suspensions on new investments to prevent further escalation of risks.
- iii. **Limiting large redemptions through Gating Mechanism:** In case of adverse stress situation, the AMC may restrict redemption subject to applicable regulatory guidelines.
- iv. **Security Diversification:** Maintain a diversified portfolio to spread liquidity risk across different securities to reduce concentration risk and mitigate the impact of adverse movements in specific stocks. In times of liquidity constraints, Investment Committee may decide to place restriction on portfolio of the Scheme including but not limited to capping maximum security and sector exposure as it deems fit in prevailing environment.
- v. **Ownership Concentration Limit:** To mitigate price risk during exit scenarios, the Fund may endeavour to limit the overall holding in individual companies as may be discussed by the Investment Committee.
- vi. **Liquidity Management:** The fund shall maintain a prudent approach to maintain sufficient liquidity in order to meet potential redemptions. This can be achieved by having adequate exposure to debt and money market instruments or large cap stocks within the limits prescribed in the Scheme Information Document of the concerned Scheme which will enhance the overall liquidity profile of the fund.
- vii. **Valuation Discipline:** Adhere to the valuation criteria based on fundamental analysis by identifying opportunities with favourable risk-return profile.
- viii. **Regular Stress Testing and Scenario Analysis:** Conduct regular stress tests to assess how holdings would fare under various market conditions to assess the resilience of the portfolio to potential market shocks and identify areas requiring rebalancing or risk mitigation.

- ix. **Comprehensive Disclosure:** Provide comprehensive disclosures to investors regarding the risks associated with small cap and midcap investing, including market volatility, market valuation, portfolio liquidity, investor concentration in the manner and format prescribed by SEBI/AMFI from time to time.

5. POLICY REVIEW & UPDATE

The Policy should be periodically reviewed (at least once a year) by the Investment (Equity), Risk and Compliance department. Post review and update of the Policy, formal approval from the Unit Holders Protection Committee of the AMC, Board of Directors of the AMC and Trustee shall be obtained.

6. REFERENCES

The following are the guiding circulars / guidelines/amendments for framing the Policy for protecting the interest of Investors in Small Cap and Midcap Funds.

- Policy to be put in place by Mutual Funds to protect the interest of investors of Small Cap and Mid Cap Schemes - 35P/ MEM-COR/116 / 2023-24, dated 27th February 2024;
- Advisory for Disclosure of Risk Parameters in respect of Mid Cap and Small Cap equity schemes on AMC Website - 35P/ MEM-COR/118 / 2023-24, dated 28th February 2024;
- SEBI Master Circular for Mutual Funds dated 19th May 2023;
- SEBI (Mutual Funds) Regulations, 1996.