UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series XXI-A

# Portfolio Management Services (PMS) Distributors

*What distributors need to know to offer portfolio management services: how PMS works, who it suits, how it is measured, taxed and regulated.*

100 QUESTIONS · 120 MINUTES · PASS 60% · 12 UNITS

UpperCrust Academy · ucwacademy.in · Free for every learner · Edition 2026

ABOUT THIS GUIDE

# Everything you need, in one place.

*NISM Series XXI-A is the mandatory certification for distributors of portfolio management services in India. It covers the investing basics, the structure and operation of PMS, the portfolio management process, performance measurement, tax and the regulatory duties of both managers and distributors.*

| 100 | 120 min | 60% | 10% of marks |
|---|---|---|---|
| QUESTIONS | DURATION | TO PASS | NEGATIVE MARKING |

## Who should take this exam

Mutual fund distributors, wealth managers, private bankers and relationship managers who want to offer PMS to high-net-worth clients, and anyone who wants to understand how discretionary portfolios work.

## How this guide works




Each unit opens with its exam weight, so you know where marks are. Each concept card gives the idea, a worked example, and the mistake the exam wants you to make. The same ideas power the five mock tests on the UpperCrust Academy app, which get harder one by one.

**Keep this in mind**

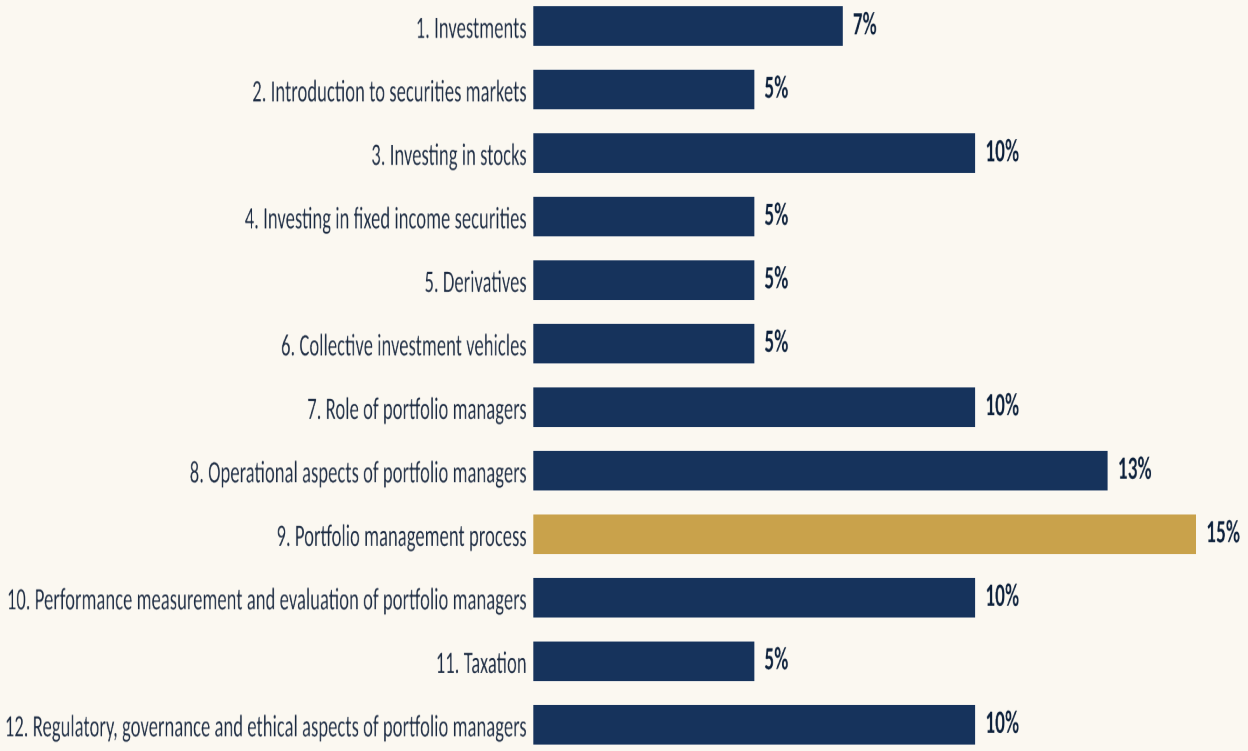
NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

# Structure and marks.

| Item | Detail |
|---|---|
| Format | Computer-based, multiple-choice questions |
| Questions and marks | 100 questions, 1 mark each, 100 marks |
| Duration | 2 hours |
| Passing score | 60 marks (60%) |
| Negative marking | 10% of a question's marks, so 0.1 per wrong answer |
| Certificate validity | Three years; renew through NISM |
| Where it leads | Distribution of PMS, along with AMFI registration (ARN) |

## Where the marks are



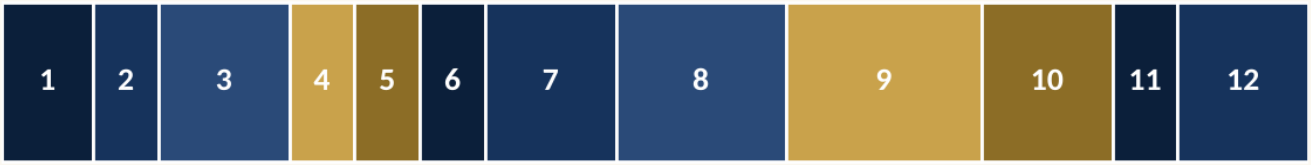

**Read the chart like an examiner**

Units above 10% decide most results. Master them first, then use the small units for easy marks. A unit worth 3% still supplies three marks at no extra effort once you have the concepts.

YOUR STUDY PLAN

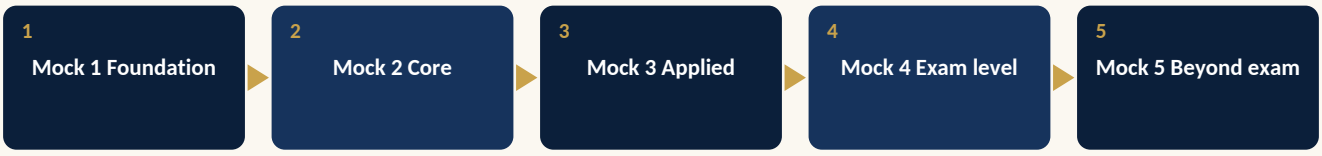
# Time follows marks.

*The bar shows how the exam is split across units. Spend your hours in the same proportion.*




| Unit | Marks | Share of study time | Suggested days |
|---|---|---|---|
| 1. Investments | 7 | 7% | 1 |
| 2. Introduction to securities markets | 5 | 5% | 1 |
| 3. Investing in stocks | 10 | 10% | 2 |
| 4. Investing in fixed income securities | 5 | 5% | 1 |
| 5. Derivatives | 5 | 5% | 1 |
| 6. Collective investment vehicles | 5 | 5% | 1 |
| 7. Role of portfolio managers | 10 | 10% | 2 |
| 8. Operational aspects of portfolio managers | 13 | 13% | 3 |
| 9. Portfolio management process | 15 | 15% | 3 |
| 10. Performance measurement and evaluation of portfolio managers | 10 | 10% | 2 |
| 11. Taxation | 5 | 5% | 1 |
| 12. Regulatory, governance and ethical aspects of portfolio managers | 10 | 10% | 2 |
| Revision and five mocks | | | 7 |

## The mock ladder




Take Mock 1 after your first pass through the guide. Move to the next mock only when you score 15 marks above the pass mark. Review every wrong answer in the app; each one links back to its unit.

UNIT 1 · 7% OF THE EXAM

# Investments

*The language of investing: asset classes, risk, return and the time value of money. Foundation for every later unit.*

### What the exam looks for

- Asset classes and risk-return.
- Time value and compounding.
- Inflation and real return.

## Concept cards

01

### Asset class

An asset class is a group of investments with similar characteristics, such as equity, fixed income, gold and real estate.

**EXAMPLE** An investor splits money between shares, bonds and gold.

**WATCH OUT** Not true: equity and debt are the same asset class.

02

### Risk and return

Higher expected return generally requires acceptance of higher risk; investors are paid for bearing risk.

**EXAMPLE** A client chasing higher returns must accept larger swings.

**WATCH OUT** Not true: high return can be earned without any added risk.

03

### Time value of money

Money received sooner is worth more than the same sum later because it can earn a return.

**EXAMPLE** ₹1 crore today is worth more than ₹1 crore in five years.

**WATCH OUT** Not true: the time value of money is the interest on a loan.

04

### Compounding

Compounding generates returns on past returns, growing wealth faster over long horizons.

**EXAMPLE** Reinvested gains themselves earn further gains.

**WATCH OUT** Not true: compounding means returns on the initial sum only.

05

### Inflation

Inflation reduces the purchasing power of money; real return is nominal return minus inflation, approximately.

**EXAMPLE** A 10% return with 6% inflation yields about 4% real return.

**WATCH OUT** Not true: inflation raises the real return of cash.

06

## Risk types

Investment risks include market, credit, liquidity, interest-rate and concentration risks.

**EXAMPLE** A concentrated portfolio suffers when its top holding falls.

**WATCH OUT** Not true: concentration risk applies only to bonds.

07

## Risk profile

A client's risk profile combines willingness and ability to bear loss and guides the portfolio mix.

**EXAMPLE** A client with a short horizon and low tolerance has a conservative profile.

**WATCH OUT** Not true: risk profile is irrelevant to PMS.

08

## Diversification

Diversification spreads investments across securities and asset classes to reduce specific risk.

**EXAMPLE** A portfolio holding 25 stocks across sectors.

**WATCH OUT** Not true: diversification removes all risk.

09

## Investment horizon

The investment horizon is the period for which funds can remain invested, affecting what assets are suitable.

**EXAMPLE** A client who needs funds in 6 months has a short horizon.

**WATCH OUT** Not true: horizon has no effect on asset choice.

**Unit recap · one line each**

Asset class · Risk and return · Time value of money · Compounding · Inflation · Risk types · Risk profile · Diversification · Investment horizon

UNIT 2 · 5% OF THE EXAM

# Introduction to securities markets

*The markets in which portfolio managers operate and the regulators who oversee them.*

### What the exam looks for

- Primary and secondary markets.
- Market participants and regulators.

## Concept cards

01

### Primary market

The primary market is where securities are first issued to investors and the issuer receives the proceeds.

**EXAMPLE** An IPO raises funds for a company.

**WATCH OUT** Not true: investors trade with each other in the primary market.

02

### Secondary market

The secondary market is where existing securities trade between investors on exchanges, providing liquidity.

**EXAMPLE** An investor sells shares through a stock exchange.

**WATCH OUT** Not true: the company receives funds from secondary market trades.

03

### Stock exchange

A stock exchange is a regulated platform where listed securities trade, such as the BSE and NSE.

**EXAMPLE** Buyers and sellers meet on an electronic platform.

**WATCH OUT** Not true: a stock exchange issues shares to the public.

04

### Depository

A depository holds securities in electronic form, enabling transfer by book entry; India has NSDL and CDSL.

**EXAMPLE** A client's shares are held electronically in a demat account.

**WATCH OUT** Not true: a depository sets stock prices.

05

### SEBI

SEBI regulates the securities market including portfolio managers, and frames regulations to protect investors.

**EXAMPLE** A portfolio manager must register with the capital-market regulator.

**WATCH OUT** Not true: sEBI regulates only banks.

06

### Settlement

Equity trades settle on T+1 through a clearing corporation, which guarantees settlement.

**EXAMPLE** Shares bought today are delivered the next working day.

**WATCH OUT** Not true: equity trades take a week to settle.

**Unit recap · one line each**

Primary market · Secondary market · Stock exchange · Depository · SEBI · Settlement

UNIT 3 · 10% OF THE EXAM

# Investing in stocks

*How portfolio managers analyse and select equity investments: valuation, style and risk.*

### What the exam looks for

- Fundamental ratios and valuation.
- Growth versus value; large versus small.
- Equity risks.

## Concept cards

01

### Equity share

An equity share represents ownership in a company with a residual claim on profits and assets.

**EXAMPLE** A client owns part of a listed company.

**WATCH OUT** Not true: equity gives a fixed return.

02

### Market capitalisation

Market capitalisation is share price times shares outstanding, used to classify companies as large, mid or small cap.

**EXAMPLE** A company with 10 crore shares at ₹300 is valued at ₹3,000 crore.

**WATCH OUT** Not true: market cap is the company's debt.

03

### Price-to-earnings ratio

P/E is the share price divided by earnings per share, showing how much investors pay per rupee of earnings.

**EXAMPLE** A stock at ₹300 with EPS of ₹15 has a P/E of 20.

**WATCH OUT** Not true: p/E is earnings divided by price.

04

### Price-to-book ratio

P/B compares share price with book value per share, widely used for banks and asset-heavy companies.

**EXAMPLE** A bank at ₹300 with book value of ₹150 trades at 2 times.

**WATCH OUT** Not true: p/B compares price with dividend.

05

### Return on equity

ROE is net profit divided by shareholders' equity and measures how effectively equity is used.

**EXAMPLE** A company earns ₹20 crore on equity of ₹100 crore.

**WATCH OUT** Not true: rOE is price divided by earnings.

06

### Growth investing

Growth investing seeks companies with above-average earnings growth, often at higher valuations.

**EXAMPLE** A manager buys fast-growing firms with premium multiples.

**WATCH OUT** Not true: growth investors buy only stocks with the lowest P/E.

07

## Value investing

Value investing buys stocks trading below estimated intrinsic value, expecting the price to converge.

**EXAMPLE** A manager buys a good business at a low multiple.

**WATCH OUT** Not true: value investors buy only the most expensive stocks.

08

## Quality investing

Quality investing favours companies with high returns on capital, stable earnings and strong governance.

**EXAMPLE** A manager picks businesses with durable returns and low debt.

**WATCH OUT** Not true: quality investing seeks the most indebted firms.

09

## Large, mid and small caps

Large caps are generally more stable and liquid; small caps offer higher growth potential with more volatility and lower liquidity.

**EXAMPLE** A small-cap stock falls sharply on a bad quarter.

**WATCH OUT** Not true: small caps are less volatile than large caps.

10

## Dividend

A dividend is a share of profit paid to shareholders, which forms part of total return along with price change.

**EXAMPLE** A company pays ₹6 per share to holders.

**WATCH OUT** Not true: dividends are guaranteed every year.

11

## Equity risks

Equity investors face market, company-specific, valuation and liquidity risks, and can lose capital.

**EXAMPLE** A stock falls 40% after a profit warning.

**WATCH OUT** Not true: equity cannot lose capital over short periods.

12

## Sector concentration

Concentrating a portfolio in one sector raises risk because sector-specific shocks hit all holdings together.

**EXAMPLE** A portfolio holding mostly banking stocks falls when banks fall.

**WATCH OUT** Not true: sector concentration lowers portfolio risk.

13

## Corporate governance

Good governance, with independent boards and transparent disclosure, reduces the risk of value loss to minority shareholders.

**EXAMPLE** A manager avoids a company with weak disclosure.

**WATCH OUT** Not true: governance does not affect investment risk.

**Unit recap · one line each**

Equity share · Market capitalisation · Price-to-earnings ratio · Price-to-book ratio · Return on equity · Growth investing · Value investing · Quality investing · Large, mid and small caps · Dividend · Equity risks · Sector concentration · Corporate governance

UNIT 4 · 5% OF THE EXAM

# Investing in fixed income securities

*Bonds and debt instruments in a portfolio: yield, duration and credit.*

### What the exam looks for

- Bond features.
- Yield and duration.
- Credit and interest-rate risk.

## Concept cards

01

### Bond

A bond is a debt instrument paying periodic interest (coupon) and repaying principal at maturity.

**EXAMPLE** An investor lends to a company and receives coupons.

**WATCH OUT** Not true: a bond gives ownership in the company.

02

### Coupon and yield

The coupon is the fixed interest on face value, while yield is the return based on current price; yield rises when price falls.

**EXAMPLE** A bond bought below face value yields more than its coupon.

**WATCH OUT** Not true: yield and price move in the same direction.

03

### Duration

Duration measures a bond's price sensitivity to interest-rate changes; higher duration means larger price swings.

**EXAMPLE** A long bond falls more than a short one when rates rise.

**WATCH OUT** Not true: duration is the bond's maturity date.

04

### Credit risk

Credit risk is the possibility that the issuer fails to pay interest or principal on time.

**EXAMPLE** A bond rated BBB is more exposed than one rated AAA.

**WATCH OUT** Not true: government bonds carry the highest credit risk.

05

### Credit rating

A credit rating is an agency's opinion of an issuer's ability to repay, from AAA (highest) downward.

**EXAMPLE** A bond is rated AA+ by a rating agency.

**WATCH OUT** Not true: a credit rating is a guarantee of repayment.

06

### Government security

A G-sec is issued by the government with negligible credit risk, though price changes with yields.

**EXAMPLE** A manager holds G-secs for safety and liquidity.

**WATCH OUT** Not true: g-secs have no price risk.

07

## Money market instruments

Money market instruments mature within a year and are used to park short-term funds.

**EXAMPLE** A portfolio holds T-bills for liquidity.

**WATCH OUT** Not true: money market instruments mature in 10 years.

**Unit recap · one line each**

Bond · Coupon and yield · Duration · Credit risk · Credit rating · Government security · Money market instruments

UNIT 5 · 5% OF THE EXAM

# Derivatives

*Derivatives in portfolios: hedging and the risks of leverage.*

### What the exam looks for

- Futures and options.
- Hedging.
- Leverage risk.

## Concept cards

01

### Derivative

A derivative is a contract whose value depends on an underlying asset, such as a share or an index.

**EXAMPLE** A contract based on the Nifty 50.

**WATCH OUT** Not true: a derivative has no link to any underlying.

02

### Futures

A futures contract is an exchange-traded agreement to buy or sell an asset at a fixed price on a future date.

**EXAMPLE** A manager sells index futures to hedge a portfolio.

**WATCH OUT** Not true: futures give a right without an obligation.

03

### Options

An option gives the buyer the right, but not the obligation, to buy or sell at a fixed price for a premium.

**EXAMPLE** A manager buys a put to protect a position.

**WATCH OUT** Not true: an option obliges the buyer to complete the trade.

04

### Hedging

Hedging uses derivatives to offset an existing risk, reducing the portfolio's exposure to adverse moves.

**EXAMPLE** A manager protects holdings with a put option.

**WATCH OUT** Not true: hedging aims to increase risk.

05

### Leverage risk

Derivatives allow large exposure for small margin, magnifying gains and losses.

**EXAMPLE** A small price move leads to a large loss on margin.

**WATCH OUT** Not true: leverage reduces risk.

**Unit recap · one line each**

Derivative · Futures · Options · Hedging · Leverage risk

UNIT 6 · 5% OF THE EXAM

# Collective investment vehicles

*Mutual funds, ETFs and AIFs compared with PMS.*

### What the exam looks for

- Mutual funds and ETFs.
- AIFs.
- PMS versus mutual funds.

### PMS versus mutual fund

| | PMS | Mutual fund |
|---|---|---|
| Ownership | Securities in client's own account | Units in a pooled scheme |
| Minimum | ₹50 lakh | As low as ₹100 or ₹500 |
| Customisation | Possible | None |
| Tax | Each trade taxed in client's hands | No tax on internal trades |

## Concept cards

01

### Mutual fund

A mutual fund pools money from many investors into a scheme managed by an AMC, with investors owning units.

**EXAMPLE** Investors hold units in a pooled scheme.

**WATCH OUT** Not true: a mutual fund holds each investor's securities separately.

02

### ETF

An ETF is a fund traded on exchanges, typically tracking an index at low cost.

**EXAMPLE** An investor buys units of a fund like a share.

**WATCH OUT** Not true: an ETF is bought only from the AMC at NAV.

03

### Alternative investment fund

An AIF is a privately pooled vehicle for sophisticated investors with a minimum of ₹1 crore.

**EXAMPLE** An investor commits ₹1 crore to a private equity fund.

**WATCH OUT** Not true: an AIF accepts small retail investments.

04

### PMS versus mutual fund

In PMS, securities are held in the client's own account and each trade is tax-relevant for the client; in mutual funds, investors hold pooled units.

**EXAMPLE** A PMS client's demat shows the underlying shares.

**WATCH OUT** Not true: in PMS, assets are pooled with other clients' money.

05

## NAV

NAV is the per-unit value of a scheme, equal to net assets divided by units outstanding.

**EXAMPLE** A scheme's value per unit is ₹40.

**WATCH OUT** Not true: nAV is used to value a PMS client's individual holdings.

06

## Expense versus fee

Mutual funds charge an expense ratio inside NAV, while PMS charges management and performance fees separately to the client.

**EXAMPLE** A PMS client is billed management fee and performance fee.

**WATCH OUT** Not true: pMS has no fees.

07

## Transparency

PMS clients see their own holdings and transactions, while mutual fund investors see a pooled portfolio.

**EXAMPLE** A PMS client checks each stock in her own portfolio.

**WATCH OUT** Not true: pMS clients cannot see holdings.

**Unit recap · one line each**

Mutual fund · ETF · Alternative investment fund · PMS versus mutual fund · NAV · Expense versus fee · Transparency

UNIT 7 · 10% OF THE EXAM

# Role of portfolio managers

*What a portfolio manager does and the three types of service.*

### What the exam looks for

- Discretionary, non-discretionary and advisory.
- Investment approach.
- Role of distributors.

## Concept cards

01

### Portfolio manager

A portfolio manager is a SEBI-registered body corporate that manages or administers a client's securities or funds under a contract.

**EXAMPLE** A registered firm invests a client's money under a signed agreement.

**WATCH OUT** Not true: a portfolio manager can be an unregistered individual.

02

### Discretionary PMS

In discretionary PMS the manager takes investment decisions independently on behalf of the client, without asking approval for each trade.

**EXAMPLE** A manager buys and sells for the client based on the strategy without consent.

**WATCH OUT** Not true: in discretionary PMS the client approves every trade.

03

### Non-discretionary PMS

In non-discretionary PMS the manager advises and executes only after the client's prior approval for each decision.

**EXAMPLE** A manager proposes a trade and executes it after the client agrees.

**WATCH OUT** Not true: the manager decides without consulting the client.

04

### Advisory PMS

In advisory PMS the manager only advises; the client decides and executes.

**EXAMPLE** The client acts on the manager's recommendation herself.

**WATCH OUT** Not true: the advisory manager executes trades for the client.

05

### Minimum investment

A client's minimum investment with a portfolio manager is ₹50 lakh, in funds or securities, with a lower threshold for accredited investors.

**EXAMPLE** A client must commit at least ₹50 lakh.

**WATCH OUT** Not true: pMS accepts investments of ₹5 lakh from retail clients.

06

## Investment approach

An investment approach is a distinct style or strategy offered by a portfolio manager, such as large-cap growth or multi-cap value, with defined objectives and risks.

**EXAMPLE** A manager offers a quality-focused multi-cap approach.

**WATCH OUT** Not true: an investment approach is a promise of returns.

07

## Client's own account

Securities in a PMS are held in a separate demat account in the client's name, giving ownership and transparency.

**EXAMPLE** A client's shares appear in her own demat account.

**WATCH OUT** Not true: pMS pools all client money into one demat account.

08

## Distributor's role

A PMS distributor introduces the service to clients, explains the product, assesses suitability and receives commission as per regulations.

**EXAMPLE** A certified distributor evaluates whether a client fits a PMS.

**WATCH OUT** Not true: a distributor manages the client's portfolio.

09

## Direct onboarding

Clients have the option to be onboarded directly with the portfolio manager without a distributor, and the manager must offer a direct plan.

**EXAMPLE** A client approaches the manager directly and avoids distribution commission.

**WATCH OUT** Not true: clients can invest in PMS only through distributors.

10

## Registration of portfolio managers

Portfolio managers must be registered with SEBI and meet net-worth requirements; the minimum net worth is ₹5 crore.

**EXAMPLE** A firm with insufficient net worth cannot be registered.

**WATCH OUT** Not true: portfolio managers need no minimum net worth.

11

## Investor charter

Portfolio managers must provide an investor charter explaining the rights and obligations of clients and the grievance process.

**EXAMPLE** A client receives a document describing her rights.

**WATCH OUT** Not true: investor charters are optional.

12

## Segregation of client assets

Client assets must be kept separate from the manager's own assets, with a custodian required for safekeeping.

**EXAMPLE** A custodian holds the securities of PMS clients separately.

**WATCH OUT** Not true: a manager may hold client assets alongside its own.

13

## Limits on pooling

A portfolio manager cannot pool client funds the way a mutual fund does; each client's portfolio is managed individually.

**EXAMPLE** Each client's holdings are separate in a PMS account.

**WATCH OUT** Not true: pMS invests all client money in a single pool.

**Unit recap · one line each**

Portfolio manager · Discretionary PMS · Non-discretionary PMS · Advisory PMS · Minimum investment · Investment approach · Client's own account · Distributor's role · Direct onboarding · Registration of portfolio managers · Investor charter · Segregation of client assets · Limits on pooling

UNIT 8 · 13% OF THE EXAM

# Operational aspects of portfolio managers

*How a PMS actually operates: agreements, onboarding, fees, custody and reporting.*

### What the exam looks for

- Portfolio management agreement.
- Fees and exit load.
- Custodian, reporting and disclosure.

### Client journey




## Concept cards

01

### Portfolio management agreement

The agreement between manager and client sets out services, fees, rights, risks, and termination terms, and is mandatory.

**EXAMPLE** A client signs a detailed contract before investing.

**WATCH OUT** Not true: a PMS can start without a written agreement.

02

### Disclosure document

The disclosure document gives the client full information about the manager, investment approach, fees, risks and litigation before signing.

**EXAMPLE** A client receives a document describing the manager and charges before investing.

**WATCH OUT** Not true: the disclosure document is given after the first year.

03

### Fixed fee

A fixed management fee is charged as a percentage of assets irrespective of performance.

**EXAMPLE** A manager charges 2% of assets every year.

**WATCH OUT** Not true: a fixed fee depends on profits.

04

### Return-based fee

A return-based fee is charged only on profits above a hurdle rate, subject to a high-water mark.

**EXAMPLE** The manager earns a share only of returns above 10%.

**WATCH OUT** Not true: a return-based fee is charged even if the portfolio loses money.

05

### Hybrid fee

A hybrid fee combines a lower fixed fee with a performance fee.

**EXAMPLE** A manager charges 1% of assets plus 10% of profits above a hurdle.

**WATCH OUT** Not true: a hybrid fee has no fixed component.

06

## Hurdle rate

A hurdle rate is the minimum return the portfolio must earn before a performance fee is charged.

**EXAMPLE** The manager earns a fee only when returns exceed 8%.

**WATCH OUT** Not true: a hurdle rate is the maximum fee permitted.

07

## High-water mark

The high-water mark is the highest value of the portfolio on which a performance fee was last paid; a new fee is charged only on gains above it.

**EXAMPLE** After a loss, no performance fee is charged until the value exceeds the previous peak.

**WATCH OUT** Not true: a high-water mark resets every month.

08

## Exit load

Exit load is a charge on withdrawal in the early years: at most 3% in the first year, 2% in the second and 1% in the third, with none thereafter.

**EXAMPLE** A client who exits early pays a decreasing charge.

**WATCH OUT** Not true: exit load is the same in every year.

09

## Custodian

A custodian safekeeps the securities of PMS clients independent of the manager, and settles trades.

**EXAMPLE** An independent institution holds client assets.

**WATCH OUT** Not true: the portfolio manager acts as the sole custodian.

10

## Client reporting

Managers must give clients periodic reports showing portfolio holdings, transactions, performance and charges.

**EXAMPLE** A client receives a quarterly report on holdings and returns.

**WATCH OUT** Not true: managers need not report to clients.

11

## Contribution of securities

Clients may contribute securities instead of cash, and the manager may hold them or realign the portfolio, with tax consequences.

**EXAMPLE** A client transfers existing shares to start a PMS.

**WATCH OUT** Not true: clients can contribute only cash.

12

## Termination

Either party may terminate the agreement as per its terms, usually with notice; assets are returned in the form specified.

**EXAMPLE** A client withdraws from the service as the contract allows.

**WATCH OUT** Not true: a client cannot leave the PMS before 10 years.

13

## Withdrawals and partial redemptions

Clients may withdraw funds or securities as per the agreement, with notice and exit load as applicable.

**EXAMPLE** A client takes out part of the portfolio and bears any exit load.

**WATCH OUT** Not true: partial withdrawals are never allowed.

14

## Brokerage and expenses

Brokerage and other expenses on transactions, such as custodian and audit fees, are charged to the client as disclosed.

**EXAMPLE** A client's statement shows brokerage and custodian charges.

**WATCH OUT** Not true: costs are not passed to PMS clients.

15

## Audit and compliance

Portfolio managers are subject to annual audits and reporting to SEBI, and must have compliance officers.

**EXAMPLE** A firm's compliance is audited each year.

**WATCH OUT** Not true: portfolio managers are never audited.

16

## Conflict of interest

Managers must avoid and disclose conflicts, such as trading in the same securities for own account ahead of clients.

**EXAMPLE** A manager discloses related-party trades.

**WATCH OUT** Not true: conflicts need not be disclosed.

**Unit recap · one line each**

Portfolio management agreement · Disclosure document · Fixed fee · Return-based fee · Hybrid fee · Hurdle rate · High-water mark · Exit load · Custodian · Client reporting · Contribution of securities · Termination · Withdrawals and partial redemptions · Brokerage and expenses · Audit and compliance · Conflict of interest

UNIT 9 · 15% OF THE EXAM

# Portfolio management process

*The core method: objectives, asset allocation, security selection, implementation and review. The heaviest unit.*

### What the exam looks for

- Steps of the process.
- Asset allocation and rebalancing.
- Risk management.
- Behavioural traps.

### Portfolio management process




## Concept cards

### 01 Investment objective

The investment objective states what the portfolio is meant to achieve, such as growth, income or capital preservation, with risk and time limits.

**EXAMPLE** A client wants long-term growth with moderate risk.

**WATCH OUT** Not true: the investment objective is unrelated to the client's needs.

### 02 Investment policy

The investment policy records objectives, constraints, allocation ranges and rebalancing rules, guiding the manager.

**EXAMPLE** A document sets limits on equity and single-stock exposure.

**WATCH OUT** Not true: an investment policy is a guarantee of returns.

### 03 Constraints

Constraints such as liquidity needs, time horizon, tax, legal limits and unique preferences shape what the portfolio can hold.

**EXAMPLE** A client who needs cash in two years cannot hold illiquid assets.

**WATCH OUT** Not true: constraints do not apply to portfolio construction.

### 04 Strategic asset allocation

Strategic allocation sets long-term target weights across asset classes, based on objectives and risk profile.

**EXAMPLE** A portfolio aims for 70% equity and 30% debt over the long term.

**WATCH OUT** Not true: strategic allocation changes every day.

05

## Tactical asset allocation

Tactical allocation makes temporary deviations from the strategic weights to benefit from expected short-term moves.

**EXAMPLE** A manager temporarily cuts equity in an expensive market.

**WATCH OUT** Not true: tactical allocation is a permanent allocation.

06

## Top-down approach

The top-down approach starts with economy and sector views and then selects stocks within favoured sectors.

**EXAMPLE** A manager picks sectors first and then stocks.

**WATCH OUT** Not true: a top-down approach starts with individual stocks.

07

## Bottom-up approach

The bottom-up approach starts with analysing individual companies, regardless of macro or sector views.

**EXAMPLE** A manager chooses strong businesses one by one.

**WATCH OUT** Not true: a bottom-up approach begins with the macro view.

08

## Active management

Active management seeks to outperform a benchmark through selection and timing decisions, at higher cost.

**EXAMPLE** A manager tries to beat the index through stock selection.

**WATCH OUT** Not true: active managers track the index exactly.

09

## Passive management

Passive management replicates an index at low cost, without attempting to outperform.

**EXAMPLE** A portfolio mirrors the benchmark.

**WATCH OUT** Not true: passive managers pick stocks they expect to beat the market.

10

## Rebalancing

Rebalancing returns the portfolio to its target weights by selling what has risen and buying what has fallen.

**EXAMPLE** Equity drifts above target, so the manager trims it.

**WATCH OUT** Not true: rebalancing means adding to the best performers.

11

## Position sizing

Position sizing sets how much of the portfolio is placed in each security, balancing conviction and risk.

**EXAMPLE** A manager limits any single stock to 10% of the portfolio.

**WATCH OUT** Not true: every holding must be of equal size.

12

## Concentrated portfolio

A concentrated portfolio holds few stocks, offering higher potential returns with higher risk.

**EXAMPLE** A PMS holds 15 stocks.

**WATCH OUT** Not true: a concentrated portfolio holds hundreds of stocks.

13

## Portfolio turnover

Portfolio turnover measures how much of the portfolio is bought and sold in a year; high turnover raises costs and taxes.

**EXAMPLE** A manager that trades heavily incurs higher charges.

**WATCH OUT** Not true: turnover has no effect on costs.

14

## Cash in the portfolio

Holding cash gives liquidity and flexibility but can drag returns in rising markets.

**EXAMPLE** A manager keeps 8% in cash for opportunities.

**WATCH OUT** Not true: cash always improves returns.

15

## Stop-loss and risk limits

Risk limits such as stop-losses, single-stock caps and sector caps control downside and discipline.

**EXAMPLE** A manager sells a position when it falls to a pre-set level.

**WATCH OUT** Not true: risk limits are unnecessary for skilled managers.

16

## Behavioural biases

Biases like overconfidence, herding and loss aversion lead to poor decisions; a disciplined process counters them.

**EXAMPLE** A manager sticks to the process despite market noise.

**WATCH OUT** Not true: professional managers are immune to bias.

17

## Suitability for PMS

PMS suits investors with large surplus funds, long horizons and ability to bear volatility and concentration risk.

**EXAMPLE** A high-net-worth client with a ten-year horizon is a candidate.

**WATCH OUT** Not true: pMS suits investors needing money in a month.

18

## Tax-aware management

Because each trade is taxed in the client's hands, managers consider holding period and tax impact when trading.

**EXAMPLE** A manager avoids selling just before a gain becomes long-term.

**WATCH OUT** Not true: tax does not affect PMS decisions.

19

## Review and monitoring

The portfolio is reviewed regularly against objectives, benchmark and risk limits, and changes are made as needed.

**EXAMPLE** A manager reviews performance every quarter and discusses with the client.

**WATCH OUT** Not true: a PMS portfolio is never reviewed once built.

**Unit recap · one line each**

Investment objective · Investment policy · Constraints · Strategic asset allocation · Tactical asset allocation · Top-down approach · Bottom-up approach · Active management · Passive management · Rebalancing · Position sizing · Concentrated portfolio · Portfolio turnover · Cash in the portfolio · Stop-loss and risk limits · Behavioural biases · Suitability for PMS · Tax-aware management · Review and monitoring

UNIT 10 · 10% OF THE EXAM

# Performance measurement and evaluation of portfolio managers

*How to judge a PMS: returns, benchmarks, risk-adjusted measures and standard reporting.*

### What the exam looks for

- TWRR and annualised return.
- Benchmark and alpha.
- Sharpe, drawdown, capture ratios.

**FORMULA · Time-weighted return**

TWRR = (1 + R1) × (1 + R2) × … − 1, where each R is a sub-period return between cash flows

## Concept cards

01

### Time-weighted return

TWRR removes the effect of cash inflows and outflows, so it measures the manager's skill independent of the client's timing.

**EXAMPLE** A manager's return is computed between each deposit or withdrawal and then chained.

**WATCH OUT** Not true: tWRR is affected by when the client adds money.

02

### Money-weighted return

The money-weighted return (IRR) reflects the size and timing of cash flows and captures the client's actual experience.

**EXAMPLE** A client's own return depends on when she invested.

**WATCH OUT** Not true: money-weighted return ignores cash flow timing.

03

### Annualised return

Annualised return converts a return over any period into an equivalent yearly rate for comparison.

**EXAMPLE** A 21% return over two years is about 10% a year.

**WATCH OUT** Not true: annualised return is the simple sum of all returns.

04

### Benchmark

A benchmark is a standard index against which performance is compared, chosen to match the strategy.

**EXAMPLE** A large-cap portfolio is compared to a large-cap index.

**WATCH OUT** Not true: any index can serve as the benchmark.

05

### Alpha

Alpha is the excess return of a portfolio over its benchmark or over what its risk would predict.

**EXAMPLE** A portfolio earns 3% more than the benchmark.

**WATCH OUT** Not true: alpha is the portfolio's total return.

06

## Standard deviation

Standard deviation measures the volatility of returns; higher values indicate more risk.

**EXAMPLE** A portfolio's returns vary widely from month to month.

**WATCH OUT** Not true: standard deviation measures the average return.

07

## Sharpe ratio

The Sharpe ratio measures excess return per unit of total risk; a higher ratio means better risk-adjusted performance.

**EXAMPLE** Two managers with equal returns are compared on risk taken.

**WATCH OUT** Not true: the Sharpe ratio considers only returns.

08

## Maximum drawdown

Maximum drawdown is the largest peak-to-trough decline in portfolio value, showing worst-case loss experienced.

**EXAMPLE** A portfolio fell 30% from its highest value.

**WATCH OUT** Not true: maximum drawdown measures the biggest gain.

09

## Up and down capture

Capture ratios show how much of the benchmark's up and down moves a portfolio captures; high up-capture and low down-capture is desirable.

**EXAMPLE** A portfolio captures 110% of rising markets and 80% of falling markets.

**WATCH OUT** Not true: a high down-capture ratio is desirable.

10

## Consistency

Consistency, shown by rolling returns over many periods, matters more than a single period's return.

**EXAMPLE** A manager's three-year rolling returns beat the benchmark in most windows.

**WATCH OUT** Not true: one strong year proves skill.

11

## Standardised reporting

SEBI requires performance of portfolio managers to be reported in a uniform manner, using TWRR, through an independent central performance platform.

**EXAMPLE** Managers' returns can be compared on a common basis.

**WATCH OUT** Not true: each manager may choose its own method.

12

## Gross versus net returns

Gross returns are before fees and expenses while net returns are after them; investors should compare net returns.

**EXAMPLE** An investor looks at returns after costs.

**WATCH OUT** Not true: gross returns are what the client receives.

13

## Style drift

Style drift occurs when a manager moves away from the stated investment approach, which should be monitored.

**EXAMPLE** A large-cap approach quietly buys small caps.

**WATCH OUT** Not true: style drift is the sign of consistent discipline.

14

## Risk-adjusted evaluation

Evaluating a manager involves return, risk, consistency, process and costs, not just headline returns.

**EXAMPLE** An adviser examines several measures before recommending a manager.

**WATCH OUT** Not true: only the last year's return matters.

**Unit recap · one line each**

Time-weighted return · Money-weighted return · Annualised return · Benchmark · Alpha · Standard deviation · Sharpe ratio · Maximum drawdown · Up and down capture · Consistency · Standardised reporting · Gross versus net returns · Style drift · Risk-adjusted evaluation

UNIT 11 · 5% OF THE EXAM

# Taxation

*How PMS income is taxed in the client's hands.*

### What the exam looks for

- Capital gains and business income.
- Dividends and TDS.
- Reporting.

## Concept cards

### 01 Taxation at client level

PMS transactions are in the client's own name, so gains and losses are taxed directly in the client's hands.

**EXAMPLE** Each sale by the manager creates a tax event for the client.

**WATCH OUT** Not true: the PMS entity pays tax on behalf of all clients.

### 02 Short-term and long-term gains

Gains on listed shares held up to 12 months are short-term and over 12 months long-term, with different tax rates.

**EXAMPLE** A share sold after 14 months gives a long-term gain.

**WATCH OUT** Not true: the holding period for listed shares is 36 months.

### 03 Dividend income

Dividend received on shares in the portfolio is taxable in the client's hands at the slab rate.

**EXAMPLE** A client adds dividend credited to her account to income.

**WATCH OUT** Not true: dividends are tax-free for all clients.

### 04 Capital gains statement

Managers provide a statement of realised gains and losses, which helps the client file her tax return.

**EXAMPLE** A client uses the statement to compute her gains.

**WATCH OUT** Not true: no tax statement is provided.

### 05 Set-off of losses

Capital losses can be set off against capital gains and carried forward as per the tax law.

**EXAMPLE** A loss on one sale offsets a gain on another.

**WATCH OUT** Not true: losses can never be set off.

### 06 Tax on fees

Management fees and expenses may be deductible against gains or income as per the law, subject to conditions.

**EXAMPLE** A client considers the tax treatment of fees paid.

**WATCH OUT** Not true: fees are always deductible.

07

## Turnover and tax

High portfolio turnover can push more gains into short-term, increasing the tax cost.

**EXAMPLE** A manager who trades frequently generates more short-term gains.

**WATCH OUT** Not true: turnover has no tax effect.

**Unit recap · one line each**

Taxation at client level · Short-term and long-term gains · Dividend income · Capital gains statement · Set-off of losses · Tax on fees · Turnover and tax

UNIT 12 · 10% OF THE EXAM

# Regulatory, governance and ethical aspects of portfolio managers

*SEBI's Portfolio Managers Regulations, the conduct of managers and the distributor's duties.*

### What the exam looks for

- Registration and net worth.
- Code of conduct.
- Distributor obligations.
- Grievance redressal.

## Concept cards

01

### SEBI Portfolio Managers Regulations

These regulations govern registration, conduct, fees, disclosures and client protection for portfolio managers.

**EXAMPLE** A manager's activities are bound by SEBI's rules.

**WATCH OUT** Not true: portfolio managers are free from regulation.

02

### Net worth requirement

A portfolio manager must maintain minimum net worth of ₹5 crore.

**EXAMPLE** A firm falls short on capital and cannot be registered.

**WATCH OUT** Not true: a manager needs only ₹10 lakh of net worth.

03

### Fiduciary duty

The manager must act in the client's best interest, with care, diligence and loyalty, and place client interest before its own.

**EXAMPLE** A manager avoids a trade that benefits it at the client's expense.

**WATCH OUT** Not true: the manager may favour its own interest.

04

### Prohibition on assured returns

Portfolio managers and distributors cannot assure or guarantee returns on a PMS.

**EXAMPLE** A distributor says 'The PMS will give you 20% every year.'

**WATCH OUT** Not true: distributors may guarantee returns.

05

### Conflict of interest

Managers must disclose and manage conflicts, avoid front running and not misuse client information.

**EXAMPLE** A manager trades ahead of a client's large order.

**WATCH OUT** Not true: front running is acceptable if profit is shared.

06

## Distributor registration

Distributors of PMS must hold the NISM XXI-A certificate and an AMFI ARN, and follow code of conduct.

**EXAMPLE** A distributor completes certification before selling PMS.

**WATCH OUT** Not true: any person can distribute PMS without certification.

07

## Suitability by distributor

The distributor must assess the client's suitability, explain risks and fees and give the disclosure document before onboarding.

**EXAMPLE** A distributor checks a client's risk profile and net worth before recommending PMS.

**WATCH OUT** Not true: suitability is the manager's duty alone.

08

## Commission disclosure

Distributors must disclose commission earned from the portfolio manager to the client.

**EXAMPLE** A distributor tells the client how she is paid.

**WATCH OUT** Not true: commissions are hidden from clients.

09

## Grievance redressal

Clients can complain to the manager, then to SEBI's complaint system, and use online dispute resolution.

**EXAMPLE** An unhappy client files a complaint on the regulator's portal.

**WATCH OUT** Not true: clients have no recourse against portfolio managers.

10

## Penalties

SEBI can penalise, suspend or cancel registration of managers or distributors who violate the regulations.

**EXAMPLE** A manager is penalised for mis-selling.

**WATCH OUT** Not true: sEBI cannot act against portfolio managers.

11

## Insider trading

Portfolio managers must not trade on unpublished price-sensitive information, and violations are prosecuted.

**EXAMPLE** A manager buys shares based on confidential merger news.

**WATCH OUT** Not true: insider trading is allowed in managed accounts.

12

## Related-party dealing

Managers must disclose investments in related-party securities and avoid favouring group entities.

**EXAMPLE** A manager discloses its group company's shares in a client's portfolio.

**WATCH OUT** Not true: related-party holdings need not be disclosed.

13

## Code of conduct for distributors

Distributors must act honestly, avoid mis-selling, keep confidentiality and give true information about products.

**EXAMPLE** A distributor refuses to oversell the product's features.

**WATCH OUT** Not true: the code allows exaggerated claims.

**Unit recap · one line each**

SEBI Portfolio Managers Regulations · Net worth requirement · Fiduciary duty · Prohibition on assured returns · Conflict of interest · Distributor registration · Suitability by distributor · Commission disclosure · Grievance redressal · Penalties · Insider trading · Related-party dealing · Code of conduct for distributors

QUICK REFERENCE

# Numbers and formulas.

## PMS types

| Type | Who decides | Who executes |
|---|---|---|
| Discretionary | Portfolio manager | Portfolio manager |
| Non-discretionary | Client approves each decision | Portfolio manager, after approval |
| Advisory | Client decides | Client; manager only advises |

## Fee structures

| Structure | How it works |
|---|---|
| Fixed fee | Percentage of assets, whatever the performance |
| Return-based | Fee only on returns above a hurdle, subject to a high-water mark |
| Hybrid | A lower fixed fee plus a performance fee |

GLOSSARY

# Every term, A to Z.

| Term | Meaning | Unit |
|---|---|---|
| Active management | Active management seeks to outperform a benchmark through selection and timing decisions, at higher cost. | 9 |
| Advisory PMS | In advisory PMS the manager only advises; the client decides and executes. | 7 |
| Alpha | Alpha is the excess return of a portfolio over its benchmark or over what its risk would predict. | 10 |
| Alternative investment fund | An AIF is a privately pooled vehicle for sophisticated investors with a minimum of ₹1 crore. | 6 |
| Annualised return | Annualised return converts a return over any period into an equivalent yearly rate for comparison. | 10 |
| Asset class | An asset class is a group of investments with similar characteristics, such as equity, fixed income, gold and real estate. | 1 |
| Audit and compliance | Portfolio managers are subject to annual audits and reporting to SEBI, and must have compliance officers. | 8 |
| Behavioural biases | Biases like overconfidence, herding and loss aversion lead to poor decisions; a disciplined process counters them. | 9 |
| Benchmark | A benchmark is a standard index against which performance is compared, chosen to match the strategy. | 10 |
| Bond | A bond is a debt instrument paying periodic interest (coupon) and repaying principal at maturity. | 4 |
| Bottom-up approach | The bottom-up approach starts with analysing individual companies, regardless of macro or sector views. | 9 |
| Brokerage and expenses | Brokerage and other expenses on transactions, such as custodian and audit fees, are charged to the client as disclosed. | 8 |
| Capital gains statement | Managers provide a statement of realised gains and losses, which helps the client file her tax return. | 11 |
| Cash in the portfolio | Holding cash gives liquidity and flexibility but can drag returns in rising markets. | 9 |
| Client reporting | Managers must give clients periodic reports showing portfolio holdings, transactions, performance and charges. | 8 |
| Client's own account | Securities in a PMS are held in a separate demat account in the client's name, giving ownership and transparency. | 7 |
| Code of conduct for distributors | Distributors must act honestly, avoid mis-selling, keep confidentiality and give true information about products. | 12 |
| Commission disclosure | Distributors must disclose commission earned from the portfolio manager to the client. | 12 |
| Compounding | Compounding generates returns on past returns, growing wealth faster over long horizons. | 1 |
| Concentrated portfolio | A concentrated portfolio holds few stocks, offering higher potential returns with higher risk. | 9 |
| Conflict of interest | Managers must avoid and disclose conflicts, such as trading in the same securities for own account ahead of clients. | 8 |

| Term | Meaning | Unit |
|---|---|---|
| Consistency | Consistency, shown by rolling returns over many periods, matters more than a single period's return. | 10 |
| Constraints | Constraints such as liquidity needs, time horizon, tax, legal limits and unique preferences shape what the portfolio can hold. | 9 |
| Contribution of securities | Clients may contribute securities instead of cash, and the manager may hold them or realign the portfolio, with tax consequences. | 8 |
| Corporate governance | Good governance, with independent boards and transparent disclosure, reduces the risk of value loss to minority shareholders. | 3 |
| Coupon and yield | The coupon is the fixed interest on face value, while yield is the return based on current price; yield rises when price falls. | 4 |
| Credit rating | A credit rating is an agency's opinion of an issuer's ability to repay, from AAA (highest) downward. | 4 |
| Credit risk | Credit risk is the possibility that the issuer fails to pay interest or principal on time. | 4 |
| Custodian | A custodian safekeeps the securities of PMS clients independent of the manager, and settles trades. | 8 |
| Depository | A depository holds securities in electronic form, enabling transfer by book entry; India has NSDL and CDSL. | 2 |
| Derivative | A derivative is a contract whose value depends on an underlying asset, such as a share or an index. | 5 |
| Direct onboarding | Clients have the option to be onboarded directly with the portfolio manager without a distributor, and the manager must offer a direct plan. | 7 |
| Disclosure document | The disclosure document gives the client full information about the manager, investment approach, fees, risks and litigation before signing. | 8 |
| Discretionary PMS | In discretionary PMS the manager takes investment decisions independently on behalf of the client, without asking approval for each trade. | 7 |
| Distributor registration | Distributors of PMS must hold the NISM XXI-A certificate and an AMFI ARN, and follow code of conduct. | 12 |
| Distributor's role | A PMS distributor introduces the service to clients, explains the product, assesses suitability and receives commission as per regulations. | 7 |
| Diversification | Diversification spreads investments across securities and asset classes to reduce specific risk. | 1 |
| Dividend | A dividend is a share of profit paid to shareholders, which forms part of total return along with price change. | 3 |
| Dividend income | Dividend received on shares in the portfolio is taxable in the client's hands at the slab rate. | 11 |
| Duration | Duration measures a bond's price sensitivity to interest-rate changes; higher duration means larger price swings. | 4 |
| Equity risks | Equity investors face market, company-specific, valuation and liquidity risks, and can lose capital. | 3 |
| Equity share | An equity share represents ownership in a company with a residual claim on profits and assets. | 3 |
| ETF | An ETF is a fund traded on exchanges, typically tracking an index at low cost. | 6 |

| Term | Meaning | Unit |
|---|---|---|
| Exit load | Exit load is a charge on withdrawal in the early years: at most 3% in the first year, 2% in the second and 1% in the third, with none thereafter. | 8 |
| Expense versus fee | Mutual funds charge an expense ratio inside NAV, while PMS charges management and performance fees separately to the client. | 6 |
| Fiduciary duty | The manager must act in the client's best interest, with care, diligence and loyalty, and place client interest before its own. | 12 |
| Fixed fee | A fixed management fee is charged as a percentage of assets irrespective of performance. | 8 |
| Futures | A futures contract is an exchange-traded agreement to buy or sell an asset at a fixed price on a future date. | 5 |
| Government security | A G-sec is issued by the government with negligible credit risk, though price changes with yields. | 4 |
| Grievance redressal | Clients can complain to the manager, then to SEBI's complaint system, and use online dispute resolution. | 12 |
| Gross versus net returns | Gross returns are before fees and expenses while net returns are after them; investors should compare net returns. | 10 |
| Growth investing | Growth investing seeks companies with above-average earnings growth, often at higher valuations. | 3 |
| Hedging | Hedging uses derivatives to offset an existing risk, reducing the portfolio's exposure to adverse moves. | 5 |
| High-water mark | The high-water mark is the highest value of the portfolio on which a performance fee was last paid; a new fee is charged only on gains above it. | 8 |
| Hurdle rate | A hurdle rate is the minimum return the portfolio must earn before a performance fee is charged. | 8 |
| Hybrid fee | A hybrid fee combines a lower fixed fee with a performance fee. | 8 |
| Inflation | Inflation reduces the purchasing power of money; real return is nominal return minus inflation, approximately. | 1 |
| Insider trading | Portfolio managers must not trade on unpublished price-sensitive information, and violations are prosecuted. | 12 |
| Investment approach | An investment approach is a distinct style or strategy offered by a portfolio manager, such as large-cap growth or multi-cap value, with defined objectives and risks. | 7 |
| Investment horizon | The investment horizon is the period for which funds can remain invested, affecting what assets are suitable. | 1 |
| Investment objective | The investment objective states what the portfolio is meant to achieve, such as growth, income or capital preservation, with risk and time limits. | 9 |
| Investment policy | The investment policy records objectives, constraints, allocation ranges and rebalancing rules, guiding the manager. | 9 |
| Investor charter | Portfolio managers must provide an investor charter explaining the rights and obligations of clients and the grievance process. | 7 |
| Large, mid and small caps | Large caps are generally more stable and liquid; small caps offer higher growth potential with more volatility and lower liquidity. | 3 |
| Leverage risk | Derivatives allow large exposure for small margin, magnifying gains and losses. | 5 |
| Limits on pooling | A portfolio manager cannot pool client funds the way a mutual fund does; each client's portfolio is managed individually. | 7 |

| Term | Meaning | Unit |
|---|---|---|
| Market capitalisation | Market capitalisation is share price times shares outstanding, used to classify companies as large, mid or small cap. | 3 |
| Maximum drawdown | Maximum drawdown is the largest peak-to-trough decline in portfolio value, showing worst-case loss experienced. | 10 |
| Minimum investment | A client's minimum investment with a portfolio manager is ₹50 lakh, in funds or securities, with a lower threshold for accredited investors. | 7 |
| Money market instruments | Money market instruments mature within a year and are used to park short-term funds. | 4 |
| Money-weighted return | The money-weighted return (IRR) reflects the size and timing of cash flows and captures the client's actual experience. | 10 |
| Mutual fund | A mutual fund pools money from many investors into a scheme managed by an AMC, with investors owning units. | 6 |
| NAV | NAV is the per-unit value of a scheme, equal to net assets divided by units outstanding. | 6 |
| Net worth requirement | A portfolio manager must maintain minimum net worth of ₹5 crore. | 12 |
| Non-discretionary PMS | In non-discretionary PMS the manager advises and executes only after the client's prior approval for each decision. | 7 |
| Options | An option gives the buyer the right, but not the obligation, to buy or sell at a fixed price for a premium. | 5 |
| Passive management | Passive management replicates an index at low cost, without attempting to outperform. | 9 |
| Penalties | SEBI can penalise, suspend or cancel registration of managers or distributors who violate the regulations. | 12 |
| PMS versus mutual fund | In PMS, securities are held in the client's own account and each trade is tax-relevant for the client; in mutual funds, investors hold pooled units. | 6 |
| Portfolio management agreement | The agreement between manager and client sets out services, fees, rights, risks, and termination terms, and is mandatory. | 8 |
| Portfolio manager | A portfolio manager is a SEBI-registered body corporate that manages or administers a client's securities or funds under a contract. | 7 |
| Portfolio turnover | Portfolio turnover measures how much of the portfolio is bought and sold in a year; high turnover raises costs and taxes. | 9 |
| Position sizing | Position sizing sets how much of the portfolio is placed in each security, balancing conviction and risk. | 9 |
| Price-to-book ratio | P/B compares share price with book value per share, widely used for banks and asset-heavy companies. | 3 |
| Price-to-earnings ratio | P/E is the share price divided by earnings per share, showing how much investors pay per rupee of earnings. | 3 |
| Primary market | The primary market is where securities are first issued to investors and the issuer receives the proceeds. | 2 |
| Prohibition on assured returns | Portfolio managers and distributors cannot assure or guarantee returns on a PMS. | 12 |
| Quality investing | Quality investing favours companies with high returns on capital, stable earnings and strong governance. | 3 |
| Rebalancing | Rebalancing returns the portfolio to its target weights by selling what has risen and buying what has fallen. | 9 |

| Term | Meaning | Unit |
|---|---|---|
| Registration of portfolio managers | Portfolio managers must be registered with SEBI and meet net-worth requirements; the minimum net worth is ₹5 crore. | 7 |
| Related-party dealing | Managers must disclose investments in related-party securities and avoid favouring group entities. | 12 |
| Return on equity | ROE is net profit divided by shareholders' equity and measures how effectively equity is used. | 3 |
| Return-based fee | A return-based fee is charged only on profits above a hurdle rate, subject to a high-water mark. | 8 |
| Review and monitoring | The portfolio is reviewed regularly against objectives, benchmark and risk limits, and changes are made as needed. | 9 |
| Risk and return | Higher expected return generally requires acceptance of higher risk; investors are paid for bearing risk. | 1 |
| Risk profile | A client's risk profile combines willingness and ability to bear loss and guides the portfolio mix. | 1 |
| Risk types | Investment risks include market, credit, liquidity, interest-rate and concentration risks. | 1 |
| Risk-adjusted evaluation | Evaluating a manager involves return, risk, consistency, process and costs, not just headline returns. | 10 |
| SEBI | SEBI regulates the securities market including portfolio managers, and frames regulations to protect investors. | 2 |
| SEBI Portfolio Managers Regulations | These regulations govern registration, conduct, fees, disclosures and client protection for portfolio managers. | 12 |
| Secondary market | The secondary market is where existing securities trade between investors on exchanges, providing liquidity. | 2 |
| Sector concentration | Concentrating a portfolio in one sector raises risk because sector-specific shocks hit all holdings together. | 3 |
| Segregation of client assets | Client assets must be kept separate from the manager's own assets, with a custodian required for safekeeping. | 7 |
| Set-off of losses | Capital losses can be set off against capital gains and carried forward as per the tax law. | 11 |
| Settlement | Equity trades settle on T+1 through a clearing corporation, which guarantees settlement. | 2 |
| Sharpe ratio | The Sharpe ratio measures excess return per unit of total risk; a higher ratio means better risk-adjusted performance. | 10 |
| Short-term and long-term gains | Gains on listed shares held up to 12 months are short-term and over 12 months long-term, with different tax rates. | 11 |
| Standard deviation | Standard deviation measures the volatility of returns; higher values indicate more risk. | 10 |
| Standardised reporting | SEBI requires performance of portfolio managers to be reported in a uniform manner, using TWRR, through an independent central performance platform. | 10 |
| Stock exchange | A stock exchange is a regulated platform where listed securities trade, such as the BSE and NSE. | 2 |
| Stop-loss and risk limits | Risk limits such as stop-losses, single-stock caps and sector caps control downside and discipline. | 9 |
| Strategic asset allocation | Strategic allocation sets long-term target weights across asset classes, based on objectives and risk profile. | 9 |

| Term | Meaning | Unit |
|---|---|---|
| Style drift | Style drift occurs when a manager moves away from the stated investment approach, which should be monitored. | 10 |
| Suitability by distributor | The distributor must assess the client's suitability, explain risks and fees and give the disclosure document before onboarding. | 12 |
| Suitability for PMS | PMS suits investors with large surplus funds, long horizons and ability to bear volatility and concentration risk. | 9 |
| Tactical asset allocation | Tactical allocation makes temporary deviations from the strategic weights to benefit from expected short-term moves. | 9 |
| Tax on fees | Management fees and expenses may be deductible against gains or income as per the law, subject to conditions. | 11 |
| Tax-aware management | Because each trade is taxed in the client's hands, managers consider holding period and tax impact when trading. | 9 |
| Taxation at client level | PMS transactions are in the client's own name, so gains and losses are taxed directly in the client's hands. | 11 |
| Termination | Either party may terminate the agreement as per its terms, usually with notice; assets are returned in the form specified. | 8 |
| Time value of money | Money received sooner is worth more than the same sum later because it can earn a return. | 1 |
| Time-weighted return | TWRR removes the effect of cash inflows and outflows, so it measures the manager's skill independent of the client's timing. | 10 |
| Top-down approach | The top-down approach starts with economy and sector views and then selects stocks within favoured sectors. | 9 |
| Transparency | PMS clients see their own holdings and transactions, while mutual fund investors see a pooled portfolio. | 6 |
| Turnover and tax | High portfolio turnover can push more gains into short-term, increasing the tax cost. | 11 |
| Up and down capture | Capture ratios show how much of the benchmark's up and down moves a portfolio captures; high up-capture and low down-capture is desirable. | 10 |
| Value investing | Value investing buys stocks trading below estimated intrinsic value, expecting the price to converge. | 3 |
| Withdrawals and partial redemptions | Clients may withdraw funds or securities as per the agreement, with notice and exit load as applicable. | 8 |

FINAL STRETCH

# The last seven days.

## Revision checklist

- [ ] Learn the three PMS types and what each lets the manager do.
- [ ] Revise the three fee structures and the high-water mark idea.
- [ ] Memorise the minimum investment and manager net-worth rule.
- [ ] Revise units 8, 9 and 10, which together carry 38% of the marks.
- [ ] Take Mock 5 timed.

## Exam-day tips

- Negative marking is light (0.1), so guess only after eliminating options.
- For PMS rules, learn the minimum numbers exactly.
- Understand the difference between discretionary and non-discretionary: it appears again and again.
- Questions on performance use TWRR; be able to compute a two-period return.
- Read the full question; PMS exams love 'which is NOT correct'.

**Disclaimer**

This guide is independent exam-preparation material written by UpperCrust Academy against the published NISM syllabus outline. It is not NISM's workbook, not endorsed by NISM or SEBI, and not investment, tax or legal advice. Rules and figures change; confirm against the latest NISM workbook, SEBI circulars and exchange notices before relying on any number.