UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series XXI-B

Portfolio Managers

For PMS fund managers: portfolio construction, equity and bond strategies, risk, performance measurement and the SEBI rules you operate under.

120 QUESTIONS · 180 MINUTES · PASS 60% · 12 UNITS

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ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series XXI-B is the certification for people who run portfolio management services in India. It goes beyond distribution: how securities are analysed, how portfolios are built, hedged, rebalanced and measured, and how the SEBI Portfolio Managers Regulations shape operations, fees, reporting and ethics.

120	180 min	60%	25% of marks
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Principal officers, fund managers, research analysts, dealers and compliance staff at SEBI-registered portfolio managers, and anyone preparing to manage client portfolios on a discretionary or non-discretionary basis.

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

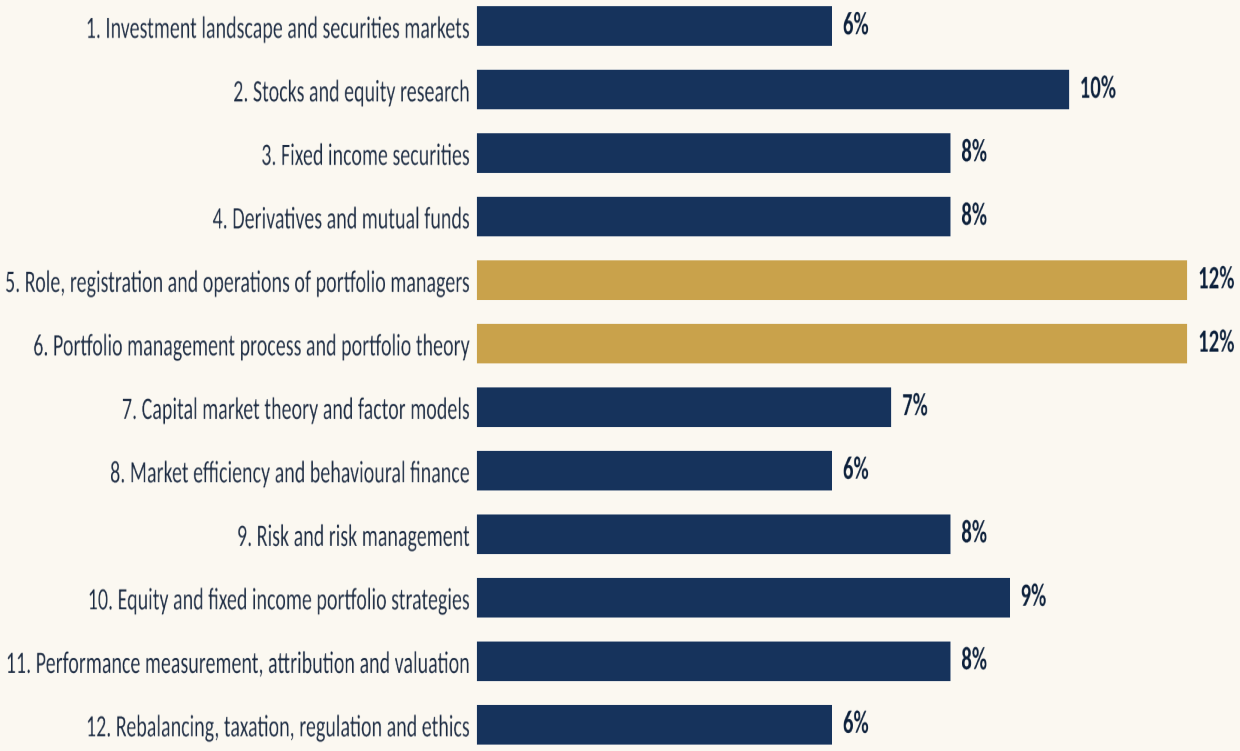
NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	Computer-based; one-mark questions plus case-based questions worth two marks each
Questions and marks	120 questions, 150 marks (30 questions carry 2 marks)
Duration	3 hours
Passing score	90 marks (60%)
Negative marking	25% of a question's marks
Certificate validity	Three years; renew through NISM
Where it leads	Principal officer and key personnel roles at a portfolio manager

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

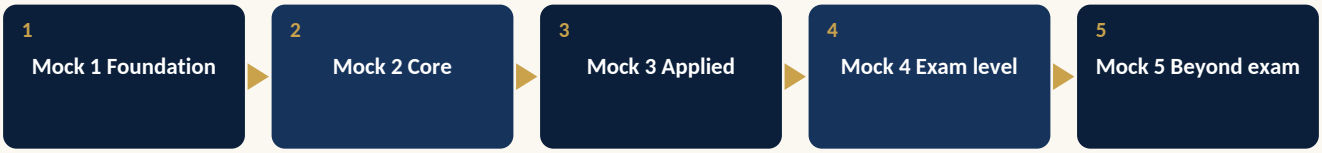
Time follows marks.

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. Investment landscape and securities markets	6	6%	3
2. Stocks and equity research	10	10%	4
3. Fixed income securities	8	8%	3
4. Derivatives and mutual funds	8	8%	3
5. Role, registration and operations of portfolio managers	12	12%	5
6. Portfolio management process and portfolio theory	12	12%	5
7. Capital market theory and factor models	7	7%	3
8. Market efficiency and behavioural finance	6	6%	3
9. Risk and risk management	8	8%	3
10. Equity and fixed income portfolio strategies	9	9%	4
11. Performance measurement, attribution and valuation	8	8%	3
12. Rebalancing, taxation, regulation and ethics	6	6%	3
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 · 6% OF THE EXAM

Investment landscape and securities markets

Investing versus speculation, objectives and constraints, and how primary and secondary markets work.

What the exam looks for

- Return objectives and constraints.
- Primary and secondary markets.
- Market participants.

Concept cards

01

Investing versus speculation

Investing commits capital for an expected return after analysis of value, while speculation takes a short-term bet mainly on price movement.

EXAMPLE A manager buys a company after valuing its cash flows.

WATCH OUT Not true: speculation and investing differ only in the amount of money.

02

Return objective

A return objective states the return a portfolio needs, taking in the client's goals, inflation and the risk the client can accept.

EXAMPLE A client needs 12% a year to fund a goal.

WATCH OUT Not true: the return objective is fixed without reference to the client.

03

Risk tolerance and ability

Risk tolerance is the client's willingness to take risk, while ability is the financial capacity to bear loss; the lower of the two governs.

EXAMPLE A willing client with little spare capital gets a cautious portfolio.

WATCH OUT Not true: willingness alone decides how much risk to take.

04

Investment constraints

Constraints such as liquidity, time horizon, tax, legal limits and unique needs restrict how a portfolio can be built.

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

WATCH OUT Not true: constraints do not affect asset selection.

05

Primary market

In the primary market, securities are issued for the first time and the issuer receives the proceeds.

EXAMPLE A company raises capital through an IPO.

WATCH OUT Not true: companies receive the money when shares trade between investors.

06

Secondary market

In the secondary market, existing securities are traded between investors, giving liquidity and price discovery.

EXAMPLE A fund sells shares on the exchange.

WATCH OUT Not true: the issuer receives funds in every secondary trade.

07

Clearing and settlement

A clearing corporation guarantees settlement of trades and manages counterparty risk, with delivery of securities and funds through depositories and banks.

EXAMPLE A trade is settled through the clearing corporation.

WATCH OUT Not true: settlement risk is borne wholly by the buyer.

08

Market intermediaries

Brokers, depositories, custodians, registrars and portfolio managers each perform a distinct role in the securities chain.

EXAMPLE A custodian safeguards client securities of a portfolio manager.

WATCH OUT Not true: a portfolio manager also acts as the depository.

Unit recap · one line each

Investing versus speculation · Return objective · Risk tolerance and ability · Investment constraints · Primary market · Secondary market · Clearing and settlement · Market intermediaries

UNIT 2 · 10% OF THE EXAM

Stocks and equity research

Equity as an asset, fundamental and technical analysis, valuation ratios and governance.

What the exam looks for

- Fundamental analysis.
- Valuation ratios.
- Technical analysis.
- Corporate governance.

Concept cards

01

Equity ownership

An equity share represents ownership in a company, with a residual claim on earnings and assets after creditors are paid.

EXAMPLE A shareholder is paid after lenders if a firm winds up.

WATCH OUT Not true: shareholders rank ahead of lenders.

02

Top-down analysis

Top-down analysis begins with the economy, moves to industries and then selects companies.

EXAMPLE A manager studies growth, then sectors, then stocks.

WATCH OUT Not true: top-down analysis starts with picking a single stock.

03

Bottom-up analysis

Bottom-up analysis starts with company-level research on business, management and financials, with less weight on the macro view.

EXAMPLE An analyst picks a firm on the strength of its balance sheet.

WATCH OUT Not true: bottom-up analysis ignores company financials.

04

Price-earnings ratio

The P/E ratio is the market price divided by earnings per share and shows what investors pay per rupee of earnings.

EXAMPLE A share at ₹200 with EPS of ₹10 has a P/E of 20.

WATCH OUT Not true: p/E is price divided by book value.

05

Price-to-book ratio

P/B compares market price to book value per share and is often used for banks and asset-heavy firms.

EXAMPLE A bank trades at 2.5 times book value.

WATCH OUT Not true: p/B compares price to dividends.

06

Return on equity

ROE is net profit divided by shareholders' equity and shows how well a firm earns on owners' capital.

EXAMPLE A firm earns ₹15 on every ₹100 of equity.

WATCH OUT Not true: rOE measures return on total assets.

07

Free cash flow

Free cash flow is operating cash flow less capital expenditure, and is the cash available to capital providers.

EXAMPLE A firm generates cash after funding its capex.

WATCH OUT Not true: free cash flow equals reported net profit.

08

Discounted cash flow

DCF values a business as the present value of its expected future cash flows, discounted at a rate reflecting risk.

EXAMPLE An analyst discounts forecast cash flows at 12%.

WATCH OUT Not true: dCF values a firm using past profits alone.

09

Technical analysis

Technical analysis studies price and volume patterns to time trades and assumes patterns tend to repeat.

EXAMPLE A trader uses moving averages to find a trend.

WATCH OUT Not true: technical analysis relies on the audited balance sheet.

10

Corporate governance

Good governance means a transparent, accountable board that protects minority shareholders, and weak governance is an investment risk.

EXAMPLE A manager avoids a firm with frequent related-party dealings.

WATCH OUT Not true: governance has no effect on valuation.

11

Stewardship

Institutional investors, including portfolio managers, are expected to monitor investee companies and vote in the interest of clients.

EXAMPLE A manager votes on a resolution after reviewing it.

WATCH OUT Not true: voting rights on client holdings can be ignored.

Unit recap · one line each

Equity ownership · Top-down analysis · Bottom-up analysis · Price-earnings ratio · Price-to-book ratio · Return on equity · Free cash flow · Discounted cash flow · Technical analysis · Corporate governance · Stewardship

UNIT 3 · 8% OF THE EXAM

Fixed income securities

Bond features, yield, credit and interest rate risk, and valuation.

What the exam looks for

- Bond terms.
- Yield and price.
- Duration.
- Credit risk.

Concept cards

01

Coupon and face value

A bond's coupon is the interest paid on its face value, and the face value is repaid at maturity.

EXAMPLE A 8% bond of ₹1,000 face pays ₹80 a year.

WATCH OUT Not true: the coupon is a share of the bond's market price.

02

Price and yield

Bond prices and yields move in opposite directions, so a rise in market yields lowers the price.

EXAMPLE Rates rise and an existing bond loses value.

WATCH OUT Not true: bond prices rise when market yields rise.

03

Yield to maturity

YTM is the single discount rate that equates the bond's price to the present value of its cash flows if held to maturity.

EXAMPLE A bond bought below par has a YTM above its coupon.

WATCH OUT Not true: yTM is always equal to the coupon rate.

04

Current yield

Current yield is annual coupon divided by the current market price.

EXAMPLE A ₹80 coupon on a bond priced at ₹950 gives a current yield above 8%.

WATCH OUT Not true: current yield includes the capital gain at maturity.

05

Duration

Duration measures the sensitivity of a bond's price to interest rate changes, and a longer duration means more rate risk.

EXAMPLE A long bond falls more than a short bond when yields rise.

WATCH OUT Not true: duration measures credit risk.

06

Credit risk

Credit risk is the risk that the issuer fails to pay interest or principal, which credit ratings help assess.

EXAMPLE An investor requires a higher yield on a lower-rated bond.

WATCH OUT Not true: credit risk is the same for all bonds of a firm's group.

07

Reinvestment risk

Reinvestment risk is the chance that coupons are reinvested at lower rates than the original yield.

EXAMPLE Falling rates reduce income from reinvested coupons.

WATCH OUT Not true: reinvestment risk applies only to zero-coupon bonds.

08

Zero-coupon bond

A zero-coupon bond pays no periodic interest and is issued at a discount to face value, repaying face value at maturity.

EXAMPLE A bond bought at ₹700 repays ₹1,000.

WATCH OUT Not true: a zero-coupon bond pays a high monthly coupon.

09

Yield curve

The yield curve plots yields against maturity, and an upward-sloping curve means longer maturities have higher yields.

EXAMPLE Ten-year yields are above one-year yields.

WATCH OUT Not true: a normal yield curve slopes downward.

10

Government securities

Government securities carry sovereign backing and little credit risk, and set the benchmark for other yields.

EXAMPLE Corporate bond spreads are measured over a G-sec yield.

WATCH OUT Not true: g-secs carry high default risk.

Unit recap · one line each

Coupon and face value · Price and yield · Yield to maturity · Current yield · Duration · Credit risk · Reinvestment risk · Zero-coupon bond · Yield curve · Government securities

UNIT 4 · 8% OF THE EXAM

Derivatives and mutual funds

Futures and options, how portfolio managers use them, and mutual funds as a comparison and a building block.

What the exam looks for

- Futures and options.
- Hedging uses.
- Mutual fund structure and measures.

Concept cards

01

Derivative

A derivative is a contract whose value is derived from an underlying asset, index or rate.

EXAMPLE A futures contract on an index.

WATCH OUT Not true: a derivative has its own value independent of any underlying.

02

Futures contract

A futures contract is a standardised agreement to buy or sell an asset at a set price on a future date, with daily settlement.

EXAMPLE A manager sells index futures to cover a falling market.

WATCH OUT Not true: a futures contract gives only the right, not the obligation, to trade.

03

Option

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

EXAMPLE A put option protects a holding against a fall.

WATCH OUT Not true: the option buyer must always exercise.

04

Hedging

Hedging uses derivatives to reduce an existing risk, such as selling futures against a stock portfolio.

EXAMPLE A manager hedges a portfolio before an election.

WATCH OUT Not true: hedging always raises expected return.

05

Protective put

A protective put combines a long stock holding with a bought put to set a floor on loss.

EXAMPLE A holder buys puts and limits downside.

WATCH OUT Not true: a protective put removes the cost of insurance.

06

Covered call

A covered call is a long stock holding with a call sold against it, earning premium but capping upside.

EXAMPLE A holder writes calls to earn extra income.

WATCH OUT Not true: a covered call has unlimited upside.

07

Margin

Exchange-traded derivatives require margin as a deposit that covers possible losses, and it is adjusted with price moves.

EXAMPLE A trader posts margin when buying futures.

WATCH OUT Not true: margin is a fee that is never refunded.

08

Mutual fund structure

A mutual fund is a trust that pools investor money, run by an AMC, with a trustee and a custodian providing oversight and safekeeping.

EXAMPLE Investors hold units in a pooled trust.

WATCH OUT Not true: a mutual fund is a company owned by its AMC.

09

NAV

NAV is the value of a fund's assets less liabilities divided by the units outstanding.

EXAMPLE A fund with ₹100 crore of net assets and 10 crore units has NAV of ₹10.

WATCH OUT Not true: nAV is set by the fund's demand in the market.

10

Expense ratio

The expense ratio is the annual cost of running a fund, charged as a percentage of assets and reducing returns.

EXAMPLE A fund charges 1% a year.

WATCH OUT Not true: expenses are charged only when the fund makes a profit.

11

Derivatives in portfolios

Portfolio managers may use derivatives for hedging, portfolio rebalancing and as permitted by the agreement and regulations, with disclosure of the approach.

EXAMPLE A manager discloses a hedging approach to clients.

WATCH OUT Not true: derivatives may be used freely without disclosure.

Unit recap · one line each

Derivative · Futures contract · Option · Hedging · Protective put · Covered call · Margin · Mutual fund structure · NAV · Expense ratio · Derivatives in portfolios

UNIT 5 · 12% OF THE EXAM

Role, registration and operations of portfolio managers

PMS service types, SEBI registration, client onboarding, fees, custody and reporting.

What the exam looks for

- Discretionary, non-discretionary and advisory.
- Net worth and minimum investment.
- Fees.
- Reports and disclosures.

Concept cards

01

Portfolio manager defined

A portfolio manager is a person who, under a contract with a client, advises, directs or manages the client's securities or funds.

EXAMPLE A registered firm manages a client's equity portfolio.

WATCH OUT Not true: a portfolio manager manages only its own money.

02

Discretionary service

In a discretionary service, the manager has independent authority over the choice of investments and decisions, in the client's name, under the agreement.

EXAMPLE The manager buys and sells without asking each time.

WATCH OUT Not true: a discretionary manager must take client approval for each trade.

03

Non-discretionary service

A non-discretionary manager makes investment decisions only with the client's prior consent for each decision.

EXAMPLE The manager calls the client before every trade.

WATCH OUT Not true: the manager acts without client approval.

04

Advisory service

In an advisory service, the manager only advises on investments and the client takes the decision and executes it.

EXAMPLE The client places the orders on the manager's advice.

WATCH OUT Not true: the advisory manager executes trades without the client.

05

Registration

A portfolio manager must be registered with SEBI and must meet the eligibility, capital and fit and proper requirements.

EXAMPLE A firm obtains a certificate before starting PMS.

WATCH OUT Not true: any company may offer PMS without registration.

06

Net worth

A portfolio manager must maintain a net worth of at least ₹5 crore, where net worth is paid-up capital and free reserves less accumulated losses and deferred expenditure not written off.

EXAMPLE A new applicant shows capital of ₹5 crore.

WATCH OUT Not true: the required net worth is ₹1 crore.

07

Minimum client investment

A client must invest at least ₹50 lakh in funds or securities with a portfolio manager, subject to exceptions such as for accredited investors.

EXAMPLE A client opens an account with ₹60 lakh.

WATCH OUT Not true: the minimum investment is ₹5 lakh.

08

Accredited investors

Accredited investors are investors recognised under the SEBI framework who may get relaxation from certain requirements, such as the minimum investment, based on their capacity.

EXAMPLE An accredited investor invests with a lower minimum.

WATCH OUT Not true: every retail investor is an accredited investor.

09

Upfront fees

A portfolio manager may charge a fee that is fixed, return-based or a mix of both, but cannot charge an upfront fee directly or indirectly from clients.

EXAMPLE A manager takes no fee on the day an account is opened.

WATCH OUT Not true: managers may collect an upfront fee when the client joins.

10

Segregation of client assets

Client funds and securities must be kept separate from the manager's own, with separate bank and demat accounts for clients.

EXAMPLE Each client holds securities in an account in her name.

WATCH OUT Not true: client holdings may be mixed with the manager's holdings.

11

No guaranteed returns

A portfolio manager must not offer or imply a guaranteed return on a service.

EXAMPLE A manager refuses to promise a return.

WATCH OUT Not true: managers may guarantee a minimum return.

12

Performance reporting

Managers must send periodic reports to clients with portfolio composition, transactions, fees and other details, at least once a quarter.

EXAMPLE A client receives a quarterly statement.

WATCH OUT Not true: clients receive reports once in two years.

13

Disclosure document

The disclosure document gives clients the manager's investment approach, fees, risks, performance and other facts, and is filed with SEBI.

EXAMPLE A client reads the document before signing.

WATCH OUT Not true: a disclosure document is optional.

14

Principal officer

The principal officer must have the prescribed qualification, experience and a NISM certification relevant to portfolio management.

EXAMPLE The firm names a certified principal officer.

WATCH OUT Not true: any employee may be principal officer without qualification.

Unit recap · one line each

Portfolio manager defined · Discretionary service · Non-discretionary service · Advisory service · Registration · Net worth · Minimum client investment · Accredited investors · Upfront fees · Segregation of client assets · No guaranteed returns · Performance reporting · Disclosure document · Principal officer

UNIT 6 · 12% OF THE EXAM

Portfolio management process and portfolio theory

Asset allocation, the steps of the process, and modern portfolio theory.

What the exam looks for

- Investment policy statement.
- Strategic and tactical allocation.
- Efficient frontier.
- Diversification.

Concept cards

01

Portfolio management process

The process includes planning with the client's objectives, executing the allocation and selection, and then feedback through monitoring and rebalancing.

EXAMPLE A manager reviews a portfolio each quarter.

WATCH OUT Not true: the process ends when securities are purchased.

02

Investment policy statement

The investment policy statement records objectives, constraints, risk profile and guidelines, and governs the manager's decisions.

EXAMPLE A client's IPS limits equity to 60%.

WATCH OUT Not true: an IPS is rewritten for every trade.

03

Strategic asset allocation

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

EXAMPLE A target of 60% equity and 40% debt.

WATCH OUT Not true: strategic allocation changes with every market move.

04

Tactical asset allocation

Tactical allocation makes short-term deviations from strategic weights to exploit market views.

EXAMPLE A manager holds extra cash when valuations are stretched.

WATCH OUT Not true: tactical allocation is the long-term target.

05

Correlation

Correlation measures how two returns move together, and combining assets with low correlation reduces portfolio risk.

EXAMPLE Gold and equity often move differently.

WATCH OUT Not true: combining assets cannot reduce risk.

06

Portfolio return

The expected return of a portfolio is the weighted average of the expected returns of its assets.

EXAMPLE 50% at 10% and 50% at 6% gives 8%.

WATCH OUT Not true: portfolio return is the simple sum of asset returns.

07

Portfolio variance

Portfolio variance depends on each asset's risk, its weight and the correlation between assets, so it is not a simple average of risks.

EXAMPLE Two risky assets with low correlation give a portfolio less risky than the average.

WATCH OUT Not true: portfolio risk is always the weighted average of the asset risks.

08

Efficient frontier

The efficient frontier shows portfolios that give the highest expected return for each level of risk.

EXAMPLE A portfolio below the frontier gives too little return for its risk.

WATCH OUT Not true: every portfolio lies on the efficient frontier.

09

Risk-averse investor

A risk-averse investor needs more expected return to accept more risk and prefers the less risky choice for the same return.

EXAMPLE An investor picks the safer of two equal-return options.

WATCH OUT Not true: a risk-averse investor ignores risk.

10

Diversification

Diversification spreads capital across assets so that specific risk falls, but it does not remove market risk.

EXAMPLE Holding 30 stocks lowers company-specific risk.

WATCH OUT Not true: diversification removes all risk.

11

Systematic and unsystematic risk

Systematic risk affects the whole market and cannot be diversified, while unsystematic risk is specific to a company or sector and can be.

EXAMPLE A recession hits all stocks.

WATCH OUT Not true: unsystematic risk cannot be reduced by diversification.

Unit recap · one line each

Portfolio management process · Investment policy statement · Strategic asset allocation · Tactical asset allocation · Correlation · Portfolio return · Portfolio variance · Efficient frontier · Risk-averse investor · Diversification · Systematic and unsystematic risk

UNIT 7 · 7% OF THE EXAM

Capital market theory and factor models

The capital market line, CAPM, the security market line and multi-factor models.

What the exam looks for

- CML.
- CAPM and beta.
- SML.
- Factor models.

Concept cards

01

Capital market line

The CML shows the risk-return trade-off of efficient portfolios that combine the risk-free asset with the market portfolio.

EXAMPLE An investor mixes cash with the market portfolio.

WATCH OUT Not true: the CML applies to individual securities.

02

Market portfolio

The market portfolio contains all risky assets in proportion to their market value and is the tangency portfolio in the theory.

EXAMPLE An index is used as a proxy for the market.

WATCH OUT Not true: the market portfolio has no risk.

03

Beta

Beta measures a security's sensitivity to market movements, with a beta above 1 meaning more volatile than the market.

EXAMPLE A stock with beta 1.4 rises 14% when the market rises 10%.

WATCH OUT Not true: beta measures total risk including specific risk.

04

CAPM

CAPM says expected return equals the risk-free rate plus beta times the market risk premium.

EXAMPLE With 7% risk-free, 6% premium and beta 1.5, the expected return is 16%.

WATCH OUT Not true: cAPM says return depends on total standard deviation.

05

Security market line

The SML plots expected return against beta, and securities above the line are undervalued.

EXAMPLE A stock with a positive alpha plots above the SML.

WATCH OUT Not true: the SML plots return against standard deviation.

06

Alpha

Alpha is the return earned above what CAPM predicts for the risk taken, and is a measure of manager skill.

EXAMPLE A fund beats its CAPM return by 2%.

WATCH OUT Not true: alpha is the market return.

07

Market risk premium

The market risk premium is the expected return of the market over the risk-free rate.

EXAMPLE If the market returns 13% and the risk-free is 7%, the premium is 6%.

WATCH OUT Not true: the premium is the risk-free rate.

08

Multi-factor models

Multi-factor models explain returns with several factors, such as size, value and momentum, in addition to the market.

EXAMPLE A model uses value and momentum in addition to beta.

WATCH OUT Not true: multi-factor models use only the market factor.

09

Capital allocation

An investor can raise return along the CML by borrowing and investing more in the market portfolio, which also raises risk.

EXAMPLE A leveraged investor holds more than 100% in the market portfolio.

WATCH OUT Not true: borrowing lowers the risk of the portfolio.

Unit recap · one line each

Capital market line · Market portfolio · Beta · CAPM · Security market line · Alpha · Market risk premium · Multi-factor models · Capital allocation

UNIT 8 · 6% OF THE EXAM

Market efficiency and behavioural finance

How efficient markets are, anomalies, and the biases that affect investors.

What the exam looks for

- Forms of efficiency.
- Anomalies.
- Biases.

Concept cards

01

Efficient market hypothesis

Under the efficient market hypothesis, prices reflect available information, making it hard to earn excess returns consistently.

EXAMPLE A manager finds it hard to beat the index after costs.

WATCH OUT Not true: prices never reflect any information.

02

Weak form

Weak form efficiency says current prices reflect all past price data, so technical analysis cannot earn excess returns.

EXAMPLE Chart patterns give no edge in a weak form market.

WATCH OUT Not true: weak form efficiency says insider information is already in the price.

03

Semi-strong form

Semi-strong efficiency says prices reflect all public information, so fundamental analysis of public data cannot earn excess returns.

EXAMPLE Published results are priced in quickly.

WATCH OUT Not true: semi-strong efficiency includes private information.

04

Strong form

Strong form efficiency says prices reflect all information, public and private, so even insiders cannot earn excess returns.

EXAMPLE Even insider information gives no advantage.

WATCH OUT Not true: strong form efficiency covers only past prices.

05

Random walk

A random walk means price changes are unpredictable because new information arrives randomly.

EXAMPLE Tomorrow's price change cannot be forecast from today's.

WATCH OUT Not true: a random walk means prices follow a fixed pattern.

06

Market anomalies

Anomalies, such as size and value effects, are patterns that appear to contradict market efficiency.

EXAMPLE Small stocks have earned more than large over long periods.

WATCH OUT Not true: anomalies prove that markets are perfectly efficient.

07

Overconfidence

Overconfidence is overestimating one's own skill and information, which can lead to excess trading.

EXAMPLE An investor trades often, sure of her views.

WATCH OUT Not true: overconfidence leads to under-trading.

08

Loss aversion

Loss aversion is the tendency to feel losses more strongly than equal gains, which can lead to holding losers.

EXAMPLE An investor refuses to sell a falling stock.

WATCH OUT Not true: loss aversion makes investors sell losers quickly.

09

Herding

Herding is following the crowd rather than one's own analysis, which can feed bubbles.

EXAMPLE Investors rush into a hot sector.

WATCH OUT Not true: herding is independent analysis.

10

Anchoring

Anchoring is holding on to an initial reference, such as a purchase price, when making later decisions.

EXAMPLE An investor waits for the price to return to her cost.

WATCH OUT Not true: anchoring updates views fully on new data.

Unit recap · one line each

Efficient market hypothesis · Weak form · Semi-strong form · Strong form · Random walk · Market anomalies · Overconfidence · Loss aversion · Herding · Anchoring

UNIT 9 · 8% OF THE EXAM

Risk and risk management

Types of risk, measurement tools and how managers control risk.

What the exam looks for

- Risk process.
- VaR and drawdown.
- Liquidity and concentration.
- Controls.

Concept cards

01

Risk management process

Risk management is identifying, measuring, monitoring and controlling risks relative to the portfolio's objectives.

EXAMPLE A manager sets limits and checks them daily.

WATCH OUT Not true: risk management means avoiding all risk.

02

Standard deviation

Standard deviation measures how widely returns vary around their average and is the common measure of total risk.

EXAMPLE A higher standard deviation means a more volatile fund.

WATCH OUT Not true: standard deviation measures only downside.

03

Value at Risk

VaR estimates the largest loss expected over a period at a stated confidence level, under normal conditions.

EXAMPLE A one-day 95% VaR of ₹2 lakh.

WATCH OUT Not true: vaR is the maximum possible loss.

04

Maximum drawdown

Maximum drawdown is the largest peak-to-trough fall in value over a period, showing the worst loss experienced.

EXAMPLE A fund falls from ₹120 to ₹90 before recovering.

WATCH OUT Not true: drawdown is the average annual loss.

05

Tracking error

Tracking error is the standard deviation of the difference between portfolio and benchmark returns, measuring active risk.

EXAMPLE A fund with a tracking error of 3% deviates from its index.

WATCH OUT Not true: tracking error measures market risk.

06

Liquidity risk

Liquidity risk is the risk of being unable to sell a position quickly without a large price concession.

EXAMPLE A manager cannot exit a small-cap holding without moving the price.

WATCH OUT Not true: liquidity risk applies only to bonds.

07

Concentration risk

Concentration risk arises when a large part of the portfolio is in a few securities or sectors.

EXAMPLE A portfolio holds 40% in one sector.

WATCH OUT Not true: concentration reduces risk.

08

Counterparty risk

Counterparty risk is the risk that the other party to a contract fails to meet its obligation.

EXAMPLE A derivative contract is traded over the counter.

WATCH OUT Not true: exchange-traded trades carry no counterparty protection.

09

Stress testing

Stress testing evaluates portfolio losses under extreme but plausible scenarios, complementing statistical measures.

EXAMPLE A manager tests a 30% market fall.

WATCH OUT Not true: stress tests use only normal markets.

10

Operational risk

Operational risk is the risk of loss from failed processes, people, systems or external events, including errors and fraud.

EXAMPLE A trade is mistakenly entered twice.

WATCH OUT Not true: operational risk arises only from market moves.

11

Risk limits

Risk limits, such as caps on single-stock and sector exposure, keep the portfolio within the client's agreed risk profile.

EXAMPLE A manager limits a stock to 10%.

WATCH OUT Not true: limits are set after losses occur.

Unit recap · one line each

Risk management process · Standard deviation · Value at Risk · Maximum drawdown · Tracking error · Liquidity risk · Concentration risk · Counterparty risk · Stress testing · Operational risk · Risk limits

UNIT 10 · 9% OF THE EXAM

Equity and fixed income portfolio strategies

Passive and active approaches, smart beta, core-satellite, and bond portfolio strategies.

What the exam looks for

- Passive and active.
- Smart beta and factors.
- Core-satellite.
- Bond strategies.

Concept cards

01

Passive strategy

A passive strategy replicates an index to match its return at low cost without trying to outperform.

EXAMPLE A portfolio holds the index stocks in index weights.

WATCH OUT Not true: a passive strategy seeks to beat the index.

02

Active strategy

An active strategy departs from the benchmark to earn higher returns, at higher cost and risk of underperformance.

EXAMPLE A manager overweights chosen stocks.

WATCH OUT Not true: active strategies guarantee outperformance.

03

Smart beta

Smart beta uses rules-based weights based on factors such as value or low volatility instead of market capitalisation.

EXAMPLE An index weights stocks by earnings rather than size.

WATCH OUT Not true: smart beta is a market-cap weighted index.

04

Factor investing

Factor investing targets return drivers such as value, momentum, quality and size across stocks.

EXAMPLE A portfolio tilts to high-quality stocks.

WATCH OUT Not true: factor investing ignores stock characteristics.

05

Core-satellite

A core-satellite approach holds a low-cost core, often passive, with smaller active satellites to seek extra return.

EXAMPLE A manager holds an index core and a few active bets.

WATCH OUT Not true: core-satellite is 100% active.

06

Growth and value styles

Growth investing seeks firms with high earnings growth, while value investing seeks stocks trading below their estimated worth.

EXAMPLE A manager buys a low P/E stock with solid earnings.

WATCH OUT Not true: value investing seeks the highest P/E.

07

Bond immunisation

Immunisation matches the portfolio's duration to the liability horizon so that interest rate changes have little net effect.

EXAMPLE A manager matches duration to a payout date.

WATCH OUT Not true: immunisation aims to maximise rate bets.

08

Laddering

A bond ladder spreads holdings evenly across maturities to manage reinvestment and interest rate risk.

EXAMPLE Bonds mature every year.

WATCH OUT Not true: a ladder puts all funds in one maturity.

09

Barbell and bullet

A barbell holds short and long maturities, while a bullet concentrates holdings around one maturity.

EXAMPLE A barbell skips the intermediate bonds.

WATCH OUT Not true: a bullet spreads across all maturities.

10

Active bond management

Active bond managers use views on rates, curve shape and credit spreads to earn more than the benchmark.

EXAMPLE A manager lengthens duration before rates fall.

WATCH OUT Not true: active bond managers never change duration.

11

Derivative overlay

Derivatives can be overlaid on a portfolio to adjust exposure or protect it without selling the underlying securities.

EXAMPLE A manager sells index futures to cut equity exposure.

WATCH OUT Not true: overlays require selling all holdings.

Unit recap · one line each

Passive strategy · Active strategy · Smart beta · Factor investing · Core-satellite · Growth and value styles · Bond immunisation · Laddering · Barbell and bullet · Active bond management · Derivative overlay

UNIT 11 · 8% OF THE EXAM

Performance measurement, attribution and valuation

Return calculation, risk-adjusted measures, attribution, benchmarking, GIPS and valuing securities.

What the exam looks for

- TWRR and MWRR.
- Sharpe, Treynor, alpha.
- Attribution.
- Valuation.

Concept cards

01

Time-weighted return

TWRR removes the effect of the timing and size of client cash flows, so it measures the manager's skill.

EXAMPLE A manager is measured regardless of client deposits.

WATCH OUT Not true: tWRR depends on when the client adds money.

02

Money-weighted return

The money-weighted return is the internal rate of return and is affected by the timing of cash flows.

EXAMPLE A client's return is lower after a late deposit before a fall.

WATCH OUT Not true: mWRR is independent of cash flow timing.

03

Sharpe ratio

The Sharpe ratio is excess return over the risk-free rate divided by standard deviation, showing return per unit of total risk.

EXAMPLE A fund returns 12% with 7% risk-free and 10% deviation, giving 0.5.

WATCH OUT Not true: the Sharpe ratio uses beta as risk.

04

Treynor ratio

The Treynor ratio is excess return over the risk-free rate divided by beta, showing return per unit of systematic risk.

EXAMPLE A fund earns 5% excess with beta 1.25, giving 4%.

WATCH OUT Not true: the Treynor ratio uses total risk.

05

Jensen's alpha

Jensen's alpha is the portfolio return less the CAPM expected return, and a positive value means outperformance for the beta taken.

EXAMPLE A fund earns 3% above its CAPM return.

WATCH OUT Not true: a negative alpha shows outperformance.

06

Information ratio

The information ratio is active return divided by tracking error, showing return per unit of active risk.

EXAMPLE A manager earns 2% active return with 4% tracking error, giving 0.5.

WATCH OUT Not true: the information ratio uses market risk.

07

Benchmark selection

A good benchmark is appropriate, investable, measurable and specified in advance, and reflects the manager's style.

EXAMPLE A large-cap manager uses a large-cap index.

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

08

Performance attribution

Attribution splits excess return into sources such as asset allocation, security selection and interaction.

EXAMPLE A report shows that stock selection added most of the outperformance.

WATCH OUT Not true: attribution shows only total return.

09

GIPS

GIPS are voluntary global standards for fair presentation and full disclosure of investment performance.

EXAMPLE A firm presents performance in line with GIPS.

WATCH OUT Not true: gIPS are laws enforced by SEBI.

10

Valuation of securities

Securities in a portfolio are valued as per the norms in the regulations and the agreement, using market prices, and fair value where none exist.

EXAMPLE A listed share is valued at its closing price.

WATCH OUT Not true: each manager may value securities as it likes.

11

Standardised PMS performance

SEBI requires portfolio manager performance to be reported on a uniform basis, with returns computed using TWRR through a central platform.

EXAMPLE Managers' reported returns are comparable.

WATCH OUT Not true: each manager chooses its own method freely.

Unit recap · one line each

Time-weighted return · Money-weighted return · Sharpe ratio · Treynor ratio · Jensen's alpha · Information ratio · Benchmark selection · Performance attribution · GIPS · Valuation of securities · Standardised PMS performance

UNIT 12 · 6% OF THE EXAM

Rebalancing, taxation, regulation and ethics

Why and how portfolios are rebalanced, tax in the client's hands, and the conduct and legal obligations of managers.

What the exam looks for

- Rebalancing rules.
- Tax.
- Insider trading and AML.
- Code of conduct.

Concept cards

01

Need for rebalancing

Rebalancing restores target weights when market moves cause drift, keeping risk in line with the policy.

EXAMPLE Equity rises to 70% against a 60% target and is trimmed.

WATCH OUT Not true: rebalancing is needed only if returns are negative.

02

Calendar and threshold rebalancing

Calendar rebalancing occurs at set times, while threshold rebalancing occurs when weights drift beyond set limits.

EXAMPLE A manager rebalances when weight exceeds a 5% band.

WATCH OUT Not true: both methods use the same trigger.

03

Costs of rebalancing

Rebalancing creates transaction costs and may create tax, which must be weighed against the benefit of risk control.

EXAMPLE A small drift is left to avoid costs.

WATCH OUT Not true: rebalancing has no cost.

04

Constant mix and buy-and-hold

A constant mix strategy keeps fixed weights by selling winners and buying losers, while buy-and-hold lets weights drift.

EXAMPLE A manager sells equity after a rally to restore 60%.

WATCH OUT Not true: buy-and-hold keeps weights fixed.

05

CPPI

Constant proportion portfolio insurance moves money between a risky and a safe asset based on a floor, raising risk as the cushion grows.

EXAMPLE A manager sells equity as value nears the floor.

WATCH OUT Not true: cPPI buys more risk as the cushion shrinks.

06

Taxation in client's hands

Because PMS holdings are in the client's name, gains, dividends and losses are taxed in the client's hands.

EXAMPLE A client reports gains from sales by the manager.

WATCH OUT Not true: the manager pays tax on behalf of all clients.

07

Section 9A

Section 9A provides that an eligible offshore fund is not treated as having a business connection in India just because its fund manager operates here, if conditions are met.

EXAMPLE A fund manager in India manages an offshore fund.

WATCH OUT Not true: section 9A applies to every domestic client.

08

Insider trading

Trading on unpublished price-sensitive information is prohibited, and managers must have policies to prevent misuse.

EXAMPLE A manager does not trade on confidential results.

WATCH OUT Not true: insider trading rules do not apply to managers.

09

Front running

Front running is trading ahead of a client's large order for the manager's own benefit and is a prohibited practice.

EXAMPLE A dealer buys before a client's block order.

WATCH OUT Not true: front running is acceptable if disclosed in a note.

10

Anti-money laundering

Managers must follow know-your-client and anti-money laundering norms, verify identity and report suspicious transactions.

EXAMPLE A firm collects KYC before onboarding.

WATCH OUT Not true: aML norms apply only to banks.

11

Fiduciary duty and conflicts

The manager must act in clients' best interest, disclose conflicts and treat clients fairly in allocating trades.

EXAMPLE A manager allocates a trade fairly across accounts.

WATCH OUT Not true: a manager may favour its own proprietary account.

12

Investor charter and grievances

Clients have rights under the investor charter and can seek redress from the manager, then SEBI's complaint platform and online dispute resolution.

EXAMPLE An unhappy client escalates to the regulator's portal.

WATCH OUT Not true: clients have no recourse beyond the manager.

Unit recap · one line each

Need for rebalancing · Calendar and threshold rebalancing · Costs of rebalancing · Constant mix and buy-and-hold · CPPI · Taxation in client's hands · Section 9A · Insider trading · Front running · Anti-money laundering · Fiduciary duty and conflicts · Investor charter and grievances

QUICK REFERENCE

Numbers and formulas.

PMS service types

Type	Who decides	Unlisted limit
Discretionary	Manager	Not allowed to exceed the limit set for unlisted securities
Non-discretionary	Manager acts only after client consent	Up to 25% of client AUM
Advisory	Client executes on advice	Up to 25% of client AUM

Risk-adjusted measures

Measure	Risk used	Idea
Sharpe	Total (standard deviation)	Excess return per unit of total risk
Treynor	Systematic (beta)	Excess return per unit of beta
Jensen's alpha	Systematic (beta)	Return above CAPM expected return
Information ratio	Tracking error	Active return per unit of active risk

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Accredited investors	Accredited investors are investors recognised under the SEBI framework who may get relaxation from certain requirements, such as the minimum investment, based on their capacity.	5
Active bond management	Active bond managers use views on rates, curve shape and credit spreads to earn more than the benchmark.	10
Active strategy	An active strategy departs from the benchmark to earn higher returns, at higher cost and risk of underperformance.	10
Advisory service	In an advisory service, the manager only advises on investments and the client takes the decision and executes it.	5
Alpha	Alpha is the return earned above what CAPM predicts for the risk taken, and is a measure of manager skill.	7
Anchoring	Anchoring is holding on to an initial reference, such as a purchase price, when making later decisions.	8
Anti-money laundering	Managers must follow know-your-client and anti-money laundering norms, verify identity and report suspicious transactions.	12
Barbell and bullet	A barbell holds short and long maturities, while a bullet concentrates holdings around one maturity.	10
Benchmark selection	A good benchmark is appropriate, investable, measurable and specified in advance, and reflects the manager's style.	11
Beta	Beta measures a security's sensitivity to market movements, with a beta above 1 meaning more volatile than the market.	7
Bond immunisation	Immunisation matches the portfolio's duration to the liability horizon so that interest rate changes have little net effect.	10
Bottom-up analysis	Bottom-up analysis starts with company-level research on business, management and financials, with less weight on the macro view.	2
Calendar and threshold rebalancing	Calendar rebalancing occurs at set times, while threshold rebalancing occurs when weights drift beyond set limits.	12
Capital allocation	An investor can raise return along the CML by borrowing and investing more in the market portfolio, which also raises risk.	7
Capital market line	The CML shows the risk-return trade-off of efficient portfolios that combine the risk-free asset with the market portfolio.	7
CAPM	CAPM says expected return equals the risk-free rate plus beta times the market risk premium.	7
Clearing and settlement	A clearing corporation guarantees settlement of trades and manages counterparty risk, with delivery of securities and funds through depositories and banks.	1
Concentration risk	Concentration risk arises when a large part of the portfolio is in a few securities or sectors.	9
Constant mix and buy-and-hold	A constant mix strategy keeps fixed weights by selling winners and buying losers, while buy-and-hold lets weights drift.	12

Term	Meaning	Unit
Core-satellite	A core-satellite approach holds a low-cost core, often passive, with smaller active satellites to seek extra return.	10
Corporate governance	Good governance means a transparent, accountable board that protects minority shareholders, and weak governance is an investment risk.	2
Correlation	Correlation measures how two returns move together, and combining assets with low correlation reduces portfolio risk.	6
Costs of rebalancing	Rebalancing creates transaction costs and may create tax, which must be weighed against the benefit of risk control.	12
Counterparty risk	Counterparty risk is the risk that the other party to a contract fails to meet its obligation.	9
Coupon and face value	A bond's coupon is the interest paid on its face value, and the face value is repaid at maturity.	3
Covered call	A covered call is a long stock holding with a call sold against it, earning premium but capping upside.	4
CPPI	Constant proportion portfolio insurance moves money between a risky and a safe asset based on a floor, raising risk as the cushion grows.	12
Credit risk	Credit risk is the risk that the issuer fails to pay interest or principal, which credit ratings help assess.	3
Current yield	Current yield is annual coupon divided by the current market price.	3
Derivative	A derivative is a contract whose value is derived from an underlying asset, index or rate.	4
Derivative overlay	Derivatives can be overlaid on a portfolio to adjust exposure or protect it without selling the underlying securities.	10
Derivatives in portfolios	Portfolio managers may use derivatives for hedging, portfolio rebalancing and as permitted by the agreement and regulations, with disclosure of the approach.	4
Disclosure document	The disclosure document gives clients the manager's investment approach, fees, risks, performance and other facts, and is filed with SEBI.	5
Discounted cash flow	DCF values a business as the present value of its expected future cash flows, discounted at a rate reflecting risk.	2
Discretionary service	In a discretionary service, the manager has independent authority over the choice of investments and decisions, in the client's name, under the agreement.	5
Diversification	Diversification spreads capital across assets so that specific risk falls, but it does not remove market risk.	6
Duration	Duration measures the sensitivity of a bond's price to interest rate changes, and a longer duration means more rate risk.	3
Efficient frontier	The efficient frontier shows portfolios that give the highest expected return for each level of risk.	6
Efficient market hypothesis	Under the efficient market hypothesis, prices reflect available information, making it hard to earn excess returns consistently.	8
Equity ownership	An equity share represents ownership in a company, with a residual claim on earnings and assets after creditors are paid.	2
Expense ratio	The expense ratio is the annual cost of running a fund, charged as a percentage of assets and reducing returns.	4
Factor investing	Factor investing targets return drivers such as value, momentum, quality and size across stocks.	10

Term	Meaning	Unit
Fiduciary duty and conflicts	The manager must act in clients' best interest, disclose conflicts and treat clients fairly in allocating trades.	12
Free cash flow	Free cash flow is operating cash flow less capital expenditure, and is the cash available to capital providers.	2
Front running	Front running is trading ahead of a client's large order for the manager's own benefit and is a prohibited practice.	12
Futures contract	A futures contract is a standardised agreement to buy or sell an asset at a set price on a future date, with daily settlement.	4
GIPS	GIPS are voluntary global standards for fair presentation and full disclosure of investment performance.	11
Government securities	Government securities carry sovereign backing and little credit risk, and set the benchmark for other yields.	3
Growth and value styles	Growth investing seeks firms with high earnings growth, while value investing seeks stocks trading below their estimated worth.	10
Hedging	Hedging uses derivatives to reduce an existing risk, such as selling futures against a stock portfolio.	4
Herding	Herding is following the crowd rather than one's own analysis, which can feed bubbles.	8
Information ratio	The information ratio is active return divided by tracking error, showing return per unit of active risk.	11
Insider trading	Trading on unpublished price-sensitive information is prohibited, and managers must have policies to prevent misuse.	12
Investing versus speculation	Investing commits capital for an expected return after analysis of value, while speculation takes a short-term bet mainly on price movement.	1
Investment constraints	Constraints such as liquidity, time horizon, tax, legal limits and unique needs restrict how a portfolio can be built.	1
Investment policy statement	The investment policy statement records objectives, constraints, risk profile and guidelines, and governs the manager's decisions.	6
Investor charter and grievances	Clients have rights under the investor charter and can seek redress from the manager, then SEBI's complaint platform and online dispute resolution.	12
Jensen's alpha	Jensen's alpha is the portfolio return less the CAPM expected return, and a positive value means outperformance for the beta taken.	11
Laddering	A bond ladder spreads holdings evenly across maturities to manage reinvestment and interest rate risk.	10
Liquidity risk	Liquidity risk is the risk of being unable to sell a position quickly without a large price concession.	9
Loss aversion	Loss aversion is the tendency to feel losses more strongly than equal gains, which can lead to holding losers.	8
Margin	Exchange-traded derivatives require margin as a deposit that covers possible losses, and it is adjusted with price moves.	4
Market anomalies	Anomalies, such as size and value effects, are patterns that appear to contradict market efficiency.	8
Market intermediaries	Brokers, depositories, custodians, registrars and portfolio managers each perform a distinct role in the securities chain.	1

Term	Meaning	Unit
Market portfolio	The market portfolio contains all risky assets in proportion to their market value and is the tangency portfolio in the theory.	7
Market risk premium	The market risk premium is the expected return of the market over the risk-free rate.	7
Maximum drawdown	Maximum drawdown is the largest peak-to-trough fall in value over a period, showing the worst loss experienced.	9
Minimum client investment	A client must invest at least ₹50 lakh in funds or securities with a portfolio manager, subject to exceptions such as for accredited investors.	5
Money-weighted return	The money-weighted return is the internal rate of return and is affected by the timing of cash flows.	11
Multi-factor models	Multi-factor models explain returns with several factors, such as size, value and momentum, in addition to the market.	7
Mutual fund structure	A mutual fund is a trust that pools investor money, run by an AMC, with a trustee and a custodian providing oversight and safekeeping.	4
NAV	NAV is the value of a fund's assets less liabilities divided by the units outstanding.	4
Need for rebalancing	Rebalancing restores target weights when market moves cause drift, keeping risk in line with the policy.	12
Net worth	A portfolio manager must maintain a net worth of at least ₹5 crore, where net worth is paid-up capital and free reserves less accumulated losses and deferred expenditure not written off.	5
No guaranteed returns	A portfolio manager must not offer or imply a guaranteed return on a service.	5
Non-discretionary service	A non-discretionary manager makes investment decisions only with the client's prior consent for each decision.	5
Operational risk	Operational risk is the risk of loss from failed processes, people, systems or external events, including errors and fraud.	9
Option	An option gives the buyer the right but not the obligation to buy or sell at a strike price, for a premium paid to the seller.	4
Overconfidence	Overconfidence is overestimating one's own skill and information, which can lead to excess trading.	8
Passive strategy	A passive strategy replicates an index to match its return at low cost without trying to outperform.	10
Performance attribution	Attribution splits excess return into sources such as asset allocation, security selection and interaction.	11
Performance reporting	Managers must send periodic reports to clients with portfolio composition, transactions, fees and other details, at least once a quarter.	5
Portfolio management process	The process includes planning with the client's objectives, executing the allocation and selection, and then feedback through monitoring and rebalancing.	6
Portfolio manager defined	A portfolio manager is a person who, under a contract with a client, advises, directs or manages the client's securities or funds.	5
Portfolio return	The expected return of a portfolio is the weighted average of the expected returns of its assets.	6
Portfolio variance	Portfolio variance depends on each asset's risk, its weight and the correlation between assets, so it is not a simple average of risks.	6

Term	Meaning	Unit
Price and yield	Bond prices and yields move in opposite directions, so a rise in market yields lowers the price.	3
Price-earnings ratio	The P/E ratio is the market price divided by earnings per share and shows what investors pay per rupee of earnings.	2
Price-to-book ratio	P/B compares market price to book value per share and is often used for banks and asset-heavy firms.	2
Primary market	In the primary market, securities are issued for the first time and the issuer receives the proceeds.	1
Principal officer	The principal officer must have the prescribed qualification, experience and a NISM certification relevant to portfolio management.	5
Protective put	A protective put combines a long stock holding with a bought put to set a floor on loss.	4
Random walk	A random walk means price changes are unpredictable because new information arrives randomly.	8
Registration	A portfolio manager must be registered with SEBI and must meet the eligibility, capital and fit and proper requirements.	5
Reinvestment risk	Reinvestment risk is the chance that coupons are reinvested at lower rates than the original yield.	3
Return objective	A return objective states the return a portfolio needs, taking in the client's goals, inflation and the risk the client can accept.	1
Return on equity	ROE is net profit divided by shareholders' equity and shows how well a firm earns on owners' capital.	2
Risk limits	Risk limits, such as caps on single-stock and sector exposure, keep the portfolio within the client's agreed risk profile.	9
Risk management process	Risk management is identifying, measuring, monitoring and controlling risks relative to the portfolio's objectives.	9
Risk tolerance and ability	Risk tolerance is the client's willingness to take risk, while ability is the financial capacity to bear loss; the lower of the two governs.	1
Risk-averse investor	A risk-averse investor needs more expected return to accept more risk and prefers the less risky choice for the same return.	6
Secondary market	In the secondary market, existing securities are traded between investors, giving liquidity and price discovery.	1
Section 9A	Section 9A provides that an eligible offshore fund is not treated as having a business connection in India just because its fund manager operates here, if conditions are met.	12
Security market line	The SML plots expected return against beta, and securities above the line are undervalued.	7
Segregation of client assets	Client funds and securities must be kept separate from the manager's own, with separate bank and demat accounts for clients.	5
Semi-strong form	Semi-strong efficiency says prices reflect all public information, so fundamental analysis of public data cannot earn excess returns.	8
Sharpe ratio	The Sharpe ratio is excess return over the risk-free rate divided by standard deviation, showing return per unit of total risk.	11
Smart beta	Smart beta uses rules-based weights based on factors such as value or low volatility instead of market capitalisation.	10

Term	Meaning	Unit
Standard deviation	Standard deviation measures how widely returns vary around their average and is the common measure of total risk.	9
Standardised PMS performance	SEBI requires portfolio manager performance to be reported on a uniform basis, with returns computed using TWRR through a central platform.	11
Stewardship	Institutional investors, including portfolio managers, are expected to monitor investee companies and vote in the interest of clients.	2
Strategic asset allocation	Strategic allocation sets long-term target weights across asset classes, based on objectives and risk, and is reviewed infrequently.	6
Stress testing	Stress testing evaluates portfolio losses under extreme but plausible scenarios, complementing statistical measures.	9
Strong form	Strong form efficiency says prices reflect all information, public and private, so even insiders cannot earn excess returns.	8
Systematic and unsystematic risk	Systematic risk affects the whole market and cannot be diversified, while unsystematic risk is specific to a company or sector and can be.	6
Tactical asset allocation	Tactical allocation makes short-term deviations from strategic weights to exploit market views.	6
Taxation in client's hands	Because PMS holdings are in the client's name, gains, dividends and losses are taxed in the client's hands.	12
Technical analysis	Technical analysis studies price and volume patterns to time trades and assumes patterns tend to repeat.	2
Time-weighted return	TWRR removes the effect of the timing and size of client cash flows, so it measures the manager's skill.	11
Top-down analysis	Top-down analysis begins with the economy, moves to industries and then selects companies.	2
Tracking error	Tracking error is the standard deviation of the difference between portfolio and benchmark returns, measuring active risk.	9
Treynor ratio	The Treynor ratio is excess return over the risk-free rate divided by beta, showing return per unit of systematic risk.	11
Upfront fees	A portfolio manager may charge a fee that is fixed, return-based or a mix of both, but cannot charge an upfront fee directly or indirectly from clients.	5
Valuation of securities	Securities in a portfolio are valued as per the norms in the regulations and the agreement, using market prices, and fair value where none exist.	11
Value at Risk	VaR estimates the largest loss expected over a period at a stated confidence level, under normal conditions.	9
Weak form	Weak form efficiency says current prices reflect all past price data, so technical analysis cannot earn excess returns.	8
Yield curve	The yield curve plots yields against maturity, and an upward-sloping curve means longer maturities have higher yields.	3
Yield to maturity	YTM is the single discount rate that equates the bond's price to the present value of its cash flows if held to maturity.	3
Zero-coupon bond	A zero-coupon bond pays no periodic interest and is issued at a discount to face value, repaying face value at maturity.	3

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Learn the PMS service types and what each lets the manager decide.
- [ ] Revise registration, net worth, minimum client investment and fee rules.
- [ ] Practise return, risk and risk-adjusted performance sums until quick.
- [ ] Revise portfolio theory: efficient frontier, CML, SML, CAPM.
- [ ] Take Mock 5 in one 3-hour sitting.

Exam-day tips

- Two-mark case questions need numbers: tabulate the facts before answering.
- Negative marking is 25%: guess only after removing two options.
- Match the strategy to the objective: passive, active, core-satellite, hedged.
- For performance, know which measure uses total risk and which uses beta.
- Rules questions: learn the exact limits and who they apply to.

Disclaimer

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