Study Notes for
NISM-Series-XXI-B: Portfolio Managers Certification Examination

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Examination Details

Multiple Choice Questions [90 questions of 1 mark each]	90*1 = 90 marks
6 Case-based Questions [6 cases (each case with 5 questions of 2 mark each)]	6*5*2 = 60 marks
Total	150 marks
Pass Score	**60% (90 marks)**
Duration	**3 Hours**
Negative marks	**25 % of marks assigned to the question**

Weightage		
Units	**Name of Units**	**Marks**
1	Investment Landscape	3
2	Introduction to Securities Markets	2
3	Investing in Stocks	5
4	Investing in Fixed Income Securities	5
5	Derivatives	5
6	Mutual Funds	5
7	Role of Portfolio Managers	10
8	Operational Aspects of Portfolio Managers	10
9	Portfolio Management Process	10
10	Taxation	5
11	Regulatory, Governance and Ethical Aspects of Portfolio Managers	10
12	Introduction to Indices	5
13	Concept of informational Efficiency	5
14	Behavioural Finance	5
15	Introduction to Modern Portfolio Theory	5
16	Introduction to Capital Market Theory	5
17	Risk	10
18	Equity Portfolio Management Strategies	15
19	Fixed Income Portfolio Management Strategies	15
20	Performance Measurement and Evaluation of Portfolio Managers	10
21	Portfolio Rebalancing	5
	Total Marks	**150**

NISM-Series-XXI-B: Portfolio Managers Certification Examination

CHAPTER 1: INVESTMENTS

1. **Investment Definition**: Commitment of savings for future returns.
2. **Saving vs. Investment**: Saving is income minus expenditure; investment deploys savings.
3. **Investment vs. Speculation**: Investment uses value analysis; speculation involves risk without research.
4. **Investment Objectives**: Include **capital preservation**, **capital appreciation**, **current income**, **tax saving**.
5. **Capital Preservation**: Minimizes principal loss, ideal for risk-averse investors.
6. **Capital Appreciation**: Targets portfolio growth, suits long-term risk-tolerant investors.
7. **Current Income**: Seeks regular dividends/interest, often for retirees.
8. **Tax Saving**: Investments offering tax deductions/rebates.
9. **Required Rate of Return**: Combines **real risk-free rate**, **inflation compensation**, **risk premium**.
10. **Real Risk-Free Rate**: Compensation for delaying consumption, tied to economic growth.
11. **Nominal Risk-Free Rate**: Real rate plus expected inflation.
12. **Risk Premium**: Extra return for uncertainty in cash flows.
13. **Risk Definition**: Variability in actual vs. expected returns.
14. **Business Risk**: Volatility from operational factors, e.g., sales fluctuations.
15. **Financial Risk**: Increased volatility from debt financing.
16. **Liquidity Risk**: Uncertainty in converting assets to cash at fair value.
17. **Exchange Rate Risk**: Volatility from currency fluctuations.
18. **Political Risk**: Variability from changes in political/economic environment.
19. **Geopolitical Risk**: Risks from wars, terrorism, or global tensions.
20. **Regulatory Risk**: Uncertainty from regulatory changes affecting costs.
21. **Risk-Return Relationship**: Higher risk demands higher returns.
22. **Financial Assets**: Claims on future cash flows, e.g., stocks, bonds.
23. **Real Assets**: Include real estate, gold, commodities; less liquid.
24. **Equity Shares**: Represent ownership with profit/voting rights.
25. **Equity Benefits**: Offer **time diversification**, reducing long-term risk.
26. **Fixed Income Securities**: Promise periodic cash flows, e.g., bonds.
27. **Government Securities**: Treasury bills (short-term), bonds (long-term), low risk.
28. **Corporate Debt**: Carries **default risk**, reflected in **credit spread**.
29. **Investment Grade Bonds**: Rated BBB or above, lower default risk.
30. **High Yield Bonds**: Below BBB, higher risk (junk bonds).
31. **Money Market Securities**: Short-term (≤1 year), e.g., T-bills, commercial papers.
32. **Capital Market Securities**: Long-term (>1 year), e.g., stocks, bonds.
33. **Commodities**: **Soft** (perishable, e.g., wheat) and **hard** (mined, e.g., gold).
34. **Soft Commodities**: High volatility, low correlation with stocks/bonds.
35. **Hard Commodities**: Gold as a **safe haven**, valued for appreciation.
36. **Real Estate**: Offers diversification, **inflation hedging**, rental income.

37. **Structured Products**: Customized investments using derivatives.
38. **Distressed Securities**: Securities of troubled companies, require valuation expertise.
39. **Art Investments**: Illiquid, low correlation, need specialized knowledge.
40. **Investment Channels**: Direct, SEBI-registered advisers, or managed portfolios (mutual funds, AIFs, PMS).

CHAPTER 2: INTRODUCTION TO SECURITIES MARKETS

1. **Securities Market**: Facilitates capital raising, risk transfer, trade.
2. **Primary Market**: Issuers sell securities directly via prospectus.
3. **Secondary Market**: Trading of issued securities, enhances **liquidity**.
4. **Market Functions**: **Capital formation**, **price discovery**, liquidity provision.
5. **Public Issue**: Securities offered to public in primary market.
6. **Private Placement**: Securities sold to select investors, often institutions.
7. **Rights Issue**: Additional shares offered to existing shareholders.
8. **Market Participants**: Issuers, investors, intermediaries, regulators.
9. **Issuers**: Companies/governments raising funds via securities.
10. **Investors**: Individuals/institutions seeking returns.
11. **Intermediaries**: Brokers, depositories, market makers.
12. **Regulators**: SEBI ensures market integrity, investor protection.
13. **Market Makers**: Provide liquidity with bid/ask quotes.
14. **Brokers**: Facilitate trades for commissions.
15. **Depositories**: Hold securities electronically, e.g., NSDL, CDSL.
16. **Custodians**: Manage securities for institutional investors.
17. **Stock Exchanges**: Platforms like BSE, NSE for trading.
18. **Clearing Corporations**: Ensure trade settlement, reduce **counterparty risk**.
19. **Retail Investors**: Individuals investing smaller amounts.
20. **Institutional Investors**: Large entities like mutual funds, pension funds.
21. **FIIs/DIIs**: Foreign/domestic institutional investors impact markets.
22. **Market Indices**: Track performance, e.g., **NIFTY 50**, **BSE Sensex**.
23. **Liquidity**: Ease of trading without significant price impact.
24. **Price Discovery**: Determines security prices via supply/demand.
25. **Market Efficiency**: Degree to which prices reflect information.
26. **Primary Market Process**: Involves underwriting, book building, allotment.
27. **Secondary Market Trading**: Via exchanges or OTC.
28. **Dematerialization**: Converts physical securities to electronic form.
29. **SEBI Role**: Regulates markets, enforces compliance.
30. **Market Segments**: Equity, debt, derivatives, commodities.
31. **Trading Mechanisms**: **Order-driven** (matching orders) or **quote-driven**.
32. **Margin Trading**: Borrowing to buy securities, increases leverage.
33. **Short Selling**: Selling borrowed securities, expecting price drops.
34. **Circuit Breakers**: Halt trading to curb volatility.
35. **IPO Process**: Involves due diligence, prospectus, SEBI approval.
36. **Book Building**: Price discovery via investor bids in IPOs.
37. **Green Shoe Option**: Stabilizes post-IPO prices with additional shares.
38. **Market Transparency**: Ensured via real-time trade disclosures.
39. **Investor Protection**: SEBI's measures include SCORES platform.
40. **Global Market Linkages**: Indian markets influenced by global events.

CHAPTER 3: INVESTING IN STOCKS

1. **Equity Investment**: Ownership with dividends, capital gains potential.
2. **Risk Diversification**: Achieved via varied equity holdings.
3. **Systematic Risk**: Market-wide, non-diversifiable, affects all stocks.
4. **Unsystematic Risk**: Company-specific, reduced by diversification.
5. **Equity Market Risks**: Market, sector, company-specific risks.
6. **Equity Research**: Analyzes financials, industry, market conditions.
7. **Fundamental Analysis**: Evaluates **intrinsic value** using ratios.
8. **Technical Analysis**: Predicts price movements via patterns.
9. **Top-Down Approach**: Analyzes macroeconomy, industry, company.
10. **Bottom-Up Approach**: Focuses on company fundamentals.
11. **Stock Selection**: Based on **P/E**, **P/B**, **dividend yield**.
12. **Corporate Governance**: Ensures management accountability.
13. **Market Capitalization**: Classifies stocks as **large-cap**, **mid-cap**, **small-cap**.
14. **Large-Cap Stocks**: Stable, less volatile, e.g., Reliance Industries.
15. **Small-Cap Stocks**: Higher growth, higher risk.
16. **Value Investing**: Buys undervalued stocks based on intrinsic value.
17. **Growth Investing**: Targets high-growth companies.
18. **Dividend Yield**: Annual dividend divided by stock price.
19. **P/E Ratio**: Price per share divided by earnings per share.
20. **Beta**: Measures stock volatility relative to market.
21. **Equity Portfolio**: Balances risk and return via stock selection.
22. **Stock Exchanges**: BSE, NSE facilitate equity trading.
23. **Liquidity Risk**: Difficulty selling stocks without price impact.
24. **Volatility**: Price fluctuations, higher for small-caps.
25. **Market Sentiment**: Influences prices beyond fundamentals.
26. **Technical Indicators**: **Moving averages**, **RSI**, **MACD**.
27. **Chart Patterns**: **Head and shoulders**, **double tops/bottoms**.
28. **Efficient Market Hypothesis**: Prices reflect all information.
29. **Board of Directors**: Ensures governance standards.
30. **Shareholder Rights**: Voting, dividends, information access.
31. **SEBI Regulations**: Enforce transparency, prevent **insider trading**.
32. **Stock Splits**: Increase shares, reduce price, improve liquidity.
33. **Bonus Shares**: Free additional shares to shareholders.
34. **Buyback**: Company repurchases shares, signals undervaluation.
35. **Portfolio Diversification**: Reduces unsystematic risk.
36. **Risk-Return Tradeoff**: Higher risk for higher returns.
37. **Sector Analysis**: Evaluates industry trends for stock picks.
38. **Earnings Reports**: Key for assessing company performance.
39. **Insider Trading**: Illegal use of non-public information.
40. **Market Trends**: **Bull** (rising) or **bear** (falling) markets.

CHAPTER 4: INVESTING IN FIXED INCOME SECURITIES

1. **Fixed Income Securities**: Promise periodic cash flows, e.g., bonds.
2. **Bond Characteristics**: Include **coupon rate**, **maturity**, **par value**.
3. **Coupon Rate**: Annual interest as percentage of par value.
4. **Maturity**: Time until principal repayment.
5. **Par Value**: Face value repaid at maturity.
6. **Bond Safety**: Determined by issuer creditworthiness, rated by CRISIL.
7. **Investment Grade**: Bonds rated BBB or above, low default risk.
8. **High Yield Bonds**: Below BBB, higher risk/return.
9. **Bond Valuation**: Present value of future cash flows at yield.
10. **Yield to Maturity (YTM)**: Total return if held to maturity.
11. **Current Yield**: Annual coupon divided by bond price.
12. **Price-Yield Relationship**: Inverse; prices fall as yields rise.
13. **Interest Rate Risk**: Bond prices sensitive to rate changes.
14. **Duration**: Measures price sensitivity to yield changes.
15. **Macaulay Duration**: Weighted average time to cash flows.
16. **Modified Duration**: Percentage price change per yield change.
17. **Convexity**: Adjusts duration for non-linear price-yield curve.
18. **Government Securities**: T-bills (<1 year), bonds (≥1 year), low risk.
19. **Corporate Bonds**: Higher yields due to **default risk**.
20. **Credit Spread**: Yield difference over government bonds.
21. **Day Count Convention**: Determines accrued interest, e.g., 30/360.
22. **Money Market Convention**: Uses actual/365 for T-bills.
23. **Callable Bonds**: Issuer can redeem early, affects yields.
24. **Putable Bonds**: Investor can sell back, reduces risk.
25. **Zero-Coupon Bonds**: No coupons, sold at discount.
26. **Bond Ratings**: CRISIL AAA (highest) to D (default).
27. **Default Risk**: Probability of issuer payment failure.
28. **Reinvestment Risk**: Reinvesting coupons at lower rates.
29. **Liquidity Risk**: Difficulty selling bonds without price impact.
30. **Bond Market**: Primary (new issues) and secondary (trading).
31. **Yield Curve**: Plots yields against maturities.
32. **Flat Yield Curve**: Similar yields across maturities.
33. **Inverted Yield Curve**: Short-term yields higher, signals recession.
34. **Bond Portfolio**: Balances risk and return via bond selection.
35. **Duration Matching**: Aligns duration with investment horizon.
36. **Immunization**: Protects portfolio from rate changes.
37. **Bond Pricing**: Discounts cash flows to present value.
38. **Credit Analysis**: Assesses issuer's debt repayment ability.
39. **SEBI Regulations**: Ensure bond market transparency.
40. **Global Bonds**: Subject to currency, geopolitical risks.

CHAPTER 5: DERIVATIVES

1. **Derivatives Definition**: Contracts deriving value from underlying assets.
2. **Types of Derivatives**: **Futures**, **options**, **forwards**, **swaps**.
3. **Futures**: Standardized contracts for future buy/sell.
4. **Options**: Right, not obligation, to buy/sell at set price.
5. **Forwards**: Non-standardized, traded OTC.
6. **Swaps**: Exchange cash flows, e.g., interest rate swaps.
7. **Derivative Markets**: **Exchange-traded** (standardized), **OTC** (customized).
8. **Purpose of Derivatives**: **Hedging**, **speculation**, **arbitrage**.
9. **Hedging**: Offsets potential losses with derivatives.
10. **Speculation**: Profits from price movements.
11. **Arbitrage**: Exploits price differences across markets.
12. **Commodity Futures**: Based on assets like gold, oil.
13. **Currency Futures**: Based on exchange rates, e.g., USD/INR.
14. **Options Types**: **Call** (buy), **put** (sell) options.
15. **Strike Price**: Price at which option is exercised.
16. **Premium**: Cost of purchasing an option.
17. **Margin Requirements**: Deposits to cover futures losses.
18. **SPAN Margin**: Standard Portfolio Analysis of Risk for margins.
19. **Derivative Risks**: Market, credit, liquidity risks.
20. **Leverage**: Amplifies gains/losses in derivatives.
21. **Black-Scholes Model**: Prices options based on volatility, time.
22. **Delta**: Option price sensitivity to underlying price.
23. **Gamma**: Rate of change in delta.
24. **Theta**: Option price decay over time.
25. **Vega**: Sensitivity to volatility changes.
26. **Rho**: Sensitivity to interest rate changes.
27. **Derivatives in PMS**: Used for hedging, return enhancement.
28. **Exchange-Traded Derivatives**: Traded on BSE, NSE, highly liquid.
29. **OTC Derivatives**: Customized, higher counterparty risk.
30. **Mark-to-Market**: Daily settlement of derivative gains/losses.
31. **Hedging Strategies**: Use options/futures to protect value.
32. **Arbitrage Opportunities**: Exploit derivative price inefficiencies.
33. **Commodity Derivatives**: Regulated by SEBI, traded on MCX, NCDEX.
34. **Currency Options**: Hedge forex exposure.
35. **Derivative Regulation**: SEBI ensures transparency, risk management.
36. **Volatility Impact**: Higher volatility increases premiums.
37. **Contract Specifications**: Define underlying, expiry, lot size.
38. **Settlement Types**: Cash or physical delivery.
39. **Risk Management**: Uses derivatives to mitigate risks.
40. **Portfolio Applications**: Enhance returns, protect against losses.

CHAPTER 6: MUTUAL FUND

1. **Mutual Fund Definition**: Pools money for diversified investments.
2. **Role of Mutual Funds**: Provide professional management, diversification.
3. **Benefits**: Diversification, low costs, regulatory protection.
4. **Legal Structure**: Trust with **sponsor**, **trustees**, **AMC**, **custodian**.
5. **Sponsor**: Establishes fund, appoints trustees.
6. **Trustees**: Oversee AMC, ensure investor protection.
7. **AMC**: Manages investments, earns fees.
8. **Custodian**: Holds securities, ensures safekeeping.
9. **Mutual Fund Types**: **Equity**, **debt**, **hybrid**, **solution-oriented**.
10. **Equity Funds**: Invest in stocks, high risk/return.
11. **Debt Funds**: Invest in bonds, lower risk, steady income.
12. **Hybrid Funds**: Combine equity and debt.
13. **Solution-Oriented Funds**: Target goals like retirement, education.
14. **Open-Ended Funds**: Allow entry/exit anytime, liquid.
15. **Close-Ended Funds**: Fixed tenure, traded on exchanges.
16. **NAV**: Net Asset Value, fund's per-unit market value.
17. **NAV Calculation**: (Assets - Liabilities) / Units.
18. **Total Expense Ratio (TER)**: Annual fees as percentage of AUM.
19. **Pricing of Units**: Based on NAV, adjusted for loads.
20. **Entry Load**: Abolished by SEBI.
21. **Exit Load**: Fee for early redemption.
22. **Fact Sheet**: Summarizes scheme performance, portfolio.
23. **SEBI Regulations**: Govern funds for transparency.
24. **SID**: Scheme Information Document, details objectives, risks.
25. **SAI**: Statement of Additional Information, AMC details.
26. **KIM**: Key Information Memorandum, summarizes SID.
27. **Performance Measures**: Absolute, annualized returns.
28. **Risk-Adjusted Return**: Evaluates returns relative to risk.
29. **Sharpe Ratio**: Excess return per unit of risk.
30. **Treynor Ratio**: Excess return per unit of systematic risk.
31. **Jensen's Alpha**: Excess return over CAPM-expected return.
32. **Benchmarking**: Compares fund to index.
33. **Rolling Returns**: Average returns over multiple periods.
34. **Portfolio Turnover**: Frequency of asset replacement.
35. **Investor Process**: Involves KYC, application, investment.
36. **SIP**: Systematic Investment Plan, regular investments.
37. **SWP**: Systematic Withdrawal Plan, regular income.
38. **STP**: Systematic Transfer Plan, moves funds between schemes.
39. **Regulatory Oversight**: SEBI ensures compliance.
40. **Mutual Fund Benefits**: Professional management, low entry barriers.

CHAPTER 7: ROLE OF PORTFOLIO MANAGERS

1. **Portfolio Manager Definition**: Manages client securities/funds.
2. **Discretionary PMS**: Manager makes independent decisions.
3. **Non-Discretionary PMS**: Follows client instructions.
4. **PMS Agreement**: Defines rights, liabilities, obligations.
5. **SEBI Regulation**: Governs PMS under 2020 regulations.
6. **Minimum Investment**: Rs.50 lakhs for PMS accounts.
7. **Fee Structure**: Fixed, performance-based, or hybrid.
8. **Principal Officer**: Oversees investment decisions, operations.
9. **Registration Requirements**: Capital adequacy, experience, infrastructure.
10. **Net Worth Requirement**: Rs.5 crore for portfolio managers.
11. **PMS Responsibilities**: Due diligence, transparency, protection.
12. **Client Segregation**: Separate accounts for each client.
13. **Investment Objectives**: Align with client risk, goals.
14. **Risk Profiling**: Assesses client's risk appetite, capacity.
15. **Portfolio Administration**: Record-keeping, reporting, compliance.
16. **Investment Approach**: Defines permissible securities, strategies.
17. **SEBI Compliance**: Adherence to regulations, audits.
18. **Client Reporting**: Periodic portfolio performance updates.
19. **Transparency**: Disclose fees, risks, conflicts.
20. **Ethical Standards**: Act in clients' best interests.
21. **Prohibited Activities**: Borrowing, speculative trading.
22. **Custodian Role**: Holds client securities, ensures safekeeping.
23. **PMS vs. Mutual Funds**: PMS offers customization, higher minimums.
24. **PMS vs. AIF**: PMS for individuals, AIF for pooled funds.
25. **Due Diligence**: Ensures client suitability, compliance.
26. **Investor Charter**: Outlines PMS services, rights.
27. **Portfolio Diversification**: Reduces unsystematic risk.
28. **Risk Management**: Aligns investments with risk tolerance.
29. **Performance Reporting**: Includes returns, benchmarks.
30. **Client Onboarding**: KYC, agreement, risk profiling.
31. **SEBI Oversight**: Ensures investor protection.
32. **Code of Conduct**: Ethical guidelines for managers.
33. **Discretionary Authority**: Independent decision-making.
34. **Non-Discretionary Limits**: Requires client approval.
35. **Portfolio Customization**: Tailored to client needs.
36. **Regulatory Updates**: Compliance with SEBI changes.
37. **Client Communication**: Regular portfolio updates.
38. **Risk Disclosure**: Inform clients of investment risks.
39. **Fee Transparency**: Clear disclosure of charges.
40. **Audit Requirements**: Annual audit of performance, compliance.

CHAPTER 8: OPERATIONAL ASPECTS OF PORTFOLIO MANAGERS

1. **Eligible Investors**: Individuals, HUFs, companies, NRIs.
2. **Minimum Investment**: Rs.50 lakhs per SEBI regulations.
3. **Disclosures to Clients**: Fees, risks, performance history.
4. **Client Onboarding**: KYC, risk profiling, agreement signing.
5. **PMS Agreement**: Specifies terms, fees, objectives.
6. **Direct Onboarding**: Clients invest without distributors.
7. **Distributor Role**: Facilitates client acquisition, earns commissions.
8. **Liability in Default**: PMS liable for negligence, misconduct.
9. **Grievance Redressal**: SCORES platform for complaints.
10. **Regulatory Disclosures**: Periodic SEBI reports on performance, AUM.
11. **Fee Structure**: Fixed, performance-based, or hybrid.
12. **Exit Load**: Charged for early withdrawal.
13. **Transaction Costs**: Brokerage, taxes, custodial fees.
14. **Custodian Services**: Mandatory for securities safekeeping.
15. **Client Reporting**: Monthly/quarterly portfolio statements.
16. **Risk Disclosure**: Highlight market, liquidity, credit risks.
17. **KYC Compliance**: Mandatory for AML adherence.
18. **SEBI Regulations**: Govern onboarding, operations.
19. **Digital Onboarding**: Enhances ease, transparency.
20. **Portfolio Segregation**: Separate client accounts.
21. **Audit Requirements**: Annual performance, compliance audits.
22. **Investor Charter**: Details services, client rights.
23. **Transparency**: Disclose fees, conflicts, risks.
24. **Client Suitability**: Align investments with risk, goals.
25. **Performance Reporting**: Net/gross returns, benchmarks.
26. **Tax Implications**: Disclose tax liabilities on gains.
27. **Regulatory Updates**: Compliance with SEBI circulars.
28. **Client Communication**: Updates via email, portals.
29. **Portfolio Monitoring**: Tracks performance, risks.
30. **Default Liability**: PMS accountable for operational failures.
31. **SCORES Platform**: SEBI's grievance redressal system.
32. **Fee Transparency**: Clear breakdown of charges.
33. **Risk Management**: Aligns with client risk tolerance.
34. **Custodial Agreements**: Define custodian responsibilities.
35. **SEBI Inspections**: Ensure regulatory compliance.
36. **Client Exit Process**: Includes exit load, liquidation.
37. **Portfolio Valuation**: Daily/periodic asset valuation.
38. **Compliance Officer**: Oversees regulatory adherence.
39. **Distributor Oversight**: APMI monitors distributors.
40. **Operational Efficiency**: Streamlined client servicing.

CHAPTER 9: PORTFOLIO MANAGEMENT PROCESS

1. **Asset Allocation**: Balances risk and return.
2. **Correlation**: Lower correlation enhances diversification.
3. **Portfolio Management Steps**: Planning, execution, feedback.
4. **Planning Phase**: Risk profiling, defining objectives.
5. **Investment Policy Statement (IPS)**: Outlines objectives, constraints.
6. **Risk Profiling**: Assesses risk appetite, capacity.
7. **Investment Objectives**: Preservation, growth, income, tax saving.
8. **Constraints**: Liquidity, time horizon, taxes, legal.
9. **Execution Phase**: Portfolio construction, allocation.
10. **Feedback Phase**: Monitoring, rebalancing, evaluation.
11. **Strategic Asset Allocation**: Long-term target weights.
12. **Tactical Asset Allocation**: Short-term market adjustments.
13. **Rebalancing**: Restores target allocations.
14. **Market Conditions**: Drive rebalancing needs.
15. **Risk Exposure**: Rebalancing maintains risk levels.
16. **Diversification Benefits**: Reduced by allocation drift.
17. **Client Circumstances**: Changes trigger rebalancing.
18. **IPS Components**: Objectives, constraints, rebalancing policy.
19. **Correlation Analysis**: Guides diversification.
20. **Portfolio Construction**: Aligns with IPS, risk profile.
21. **Active Management**: Outperforms benchmarks via decisions.
22. **Passive Management**: Tracks benchmarks, low costs.
23. **Rebalancing Triggers**: Market movements, client changes.
24. **Asset Classes**: Equities, bonds, real estate, commodities.
25. **Risk-Return Optimization**: Balances expected returns, risk.
26. **Portfolio Monitoring**: Tracks performance, IPS alignment.
27. **Tactical Adjustments**: Exploit market opportunities.
28. **Strategic vs. Tactical**: Strategic (long-term), tactical (short-term).
29. **Rebalancing Frequency**: Periodic or threshold-based.
30. **Threshold Rebalancing**: Uses deviation limits.
31. **Time-Based Rebalancing**: Fixed intervals, e.g., quarterly.
32. **Portfolio Drift**: Deviation from target allocations.
33. **Risk Management**: Rebalancing maintains risk levels.
34. **Client Communication**: Updates on portfolio changes.
35. **Tax Considerations**: Rebalancing may trigger taxes.
36. **Transaction Costs**: Impact rebalancing decisions.
37. **Liquidity Needs**: Influence allocation, rebalancing.
38. **Performance Evaluation**: Compares to benchmarks, goals.
39. **SEBI Compliance**: Ensures regulatory alignment.
40. **Portfolio Optimization**: Uses MPT for risk-return efficiency.

CHAPTER 10: TAXATION

1. **Investor Taxation**: Varies by income, residency, asset type.
2. **Resident Taxation**: Taxed on global income.
3. **Non-Resident Taxation**: Taxed on India-sourced income.
4. **Capital Gains**: Taxed on asset sale profits.
5. **Short-Term Capital Gains (STCG)**: ≤1 year (equities), ≤3 years (others).
6. **Long-Term Capital Gains (LTCG)**: >1 year (equities), >3 years (others).
7. **Equity STCG**: Taxed at 15% for listed securities.
8. **Equity LTCG**: 10% above Rs.1 lakh exemption.
9. **Debt STCG**: Taxed at slab rates.
10. **Debt LTCG**: 20% with indexation.
11. **Indexation**: Adjusts cost for inflation, reduces gains.
12. **Dividend Income**: Taxed at slab rates post-2020.
13. **Interest Income**: Taxed at slab rates, e.g., bond interest.
14. **Section 9A**: Governs offshore fund taxation.
15. **Safe Harbour Rules**: Provide tax certainty for offshore funds.
16. **Business Income**: Taxed differently from capital gains.
17. **Tax Deductions**: Available for ELSS, other investments.
18. **Tax Rebates**: Reduce liability, e.g., Section 80C.
19. **Advance Tax**: Payable if liability > Rs.10,000.
20. **TDS**: Deducted on dividends, interest.
21. **Capital Loss**: Offsets gains, carried forward 8 years.
22. **Short-Term Loss**: Offsets STCG, LTCG.
23. **Long-Term Loss**: Offsets only LTCG.
24. **Tax Planning**: Aligns investments with tax benefits.
25. **Mutual Fund Taxation**: Varies by equity/debt, holding period.
26. **SIP Taxation**: Each installment treated separately.
27. **Dividend Distribution Tax (DDT)**: Abolished, dividends taxable.
28. **Non-Resident PMS**: Subject to withholding tax.
29. **Tax Treaties**: Reduce double taxation for NRIs.
30. **Section 9A Eligibility**: Requires non-resident fund, external management.
31. **Tax Reporting**: PMS provides tax statements.
32. **Indexation Benefit**: Applies to debt, real estate.
33. **STT**: Securities Transaction Tax on equity trades.
34. **Tax on Derivatives**: Treated as business income.
35. **PMS Taxation**: Gains taxed per asset type, period.
36. **Wealth Tax**: Abolished, replaced by surcharge.
37. **Tax Compliance**: PMS ensures TDS, advance tax.
38. **Capital Gains Exemption**: For reinvestment in specified assets.
39. **Tax Audit**: Required for high-value portfolios.
40. **Investor Awareness**: PMS educates on tax implications.

CHAPTER 11: REGULATORY, GOVERNANCE AND ETHICAL ASPECTS OF PORTFOLIO MANAGERS

1. **PMLA 2002**: Prevents money laundering, mandates KYC.
2. **SEBI Insider Trading Regulations**: Prohibit trading on non-public info.
3. **SEBI Fraudulent Practices Regulations**: Prevent market manipulation.
4. **SEBI Portfolio Managers Regulations**: Govern PMS operations.
5. **PMLA Obligations**: Report suspicious transactions.
6. **Insider Trading Definition**: Trading on material non-public info.
7. **Fraudulent Practices**: Include manipulation, misleading disclosures.
8. **PMS Registration**: Requires SEBI approval, capital adequacy.
9. **Minimum Net Worth**: Rs.5 crore for portfolio managers.
10. **Client Agreement**: Defines rights, obligations, fees.
11. **Code of Conduct**: Act in client's best interest.
12. **Transparency**: Disclose fees, risks, conflicts.
13. **Investor Charter**: Outlines services, rights, complaints.
14. **Due Diligence**: Ensures client suitability, compliance.
15. **KYC Norms**: Mandatory for AML compliance.
16. **Audit Requirements**: Annual performance, compliance audits.
17. **SEBI Oversight**: Monitors PMS for investor protection.
18. **Client Reporting**: Periodic portfolio updates.
19. **Fee Disclosure**: Clear breakdown of charges.
20. **Risk Disclosure**: Highlight market, credit risks.
21. **Ethical Standards**: Integrity, avoid conflicts.
22. **Prohibited Activities**: Borrowing, speculative trading.
23. **Grievance Redressal**: SCORES platform for complaints.
24. **Regulatory Updates**: Compliance with SEBI circulars.
25. **Client Segregation**: Separate client accounts.
26. **Custodian Role**: Ensures securities safekeeping.
27. **PMS vs. Mutual Funds**: PMS offers customization.
28. **PMS vs. AIF**: PMS for individuals, AIF for pooled funds.
29. **Performance Reporting**: Net/gross returns, benchmarks.
30. **Compliance Officer**: Oversees regulatory adherence.
31. **Digital Onboarding**: Enhances ease, transparency.
32. **SEBI Inspections**: Ensure compliance, audits.
33. **Investor Protection**: SEBI measures include SCORES.
34. **Conflict of Interest**: Must be disclosed, managed.
35. **Portfolio Valuation**: Daily/periodic valuation.
36. **Tax Compliance**: Ensures TDS, advance tax adherence.
37. **Client Communication**: Regular updates via email/portals.
38. **Regulatory Sandbox**: Tests innovative products.
39. **Best Practices**: Transparency, client-centric approach.
40. **APMI Role**: Oversees PMS distributors.

CHAPTER 12: INTRODUCTION TO INDICES

1. **Index Definition**: Tracks performance of securities basket.
2. **Uses of Indices**: Benchmarking, market tracking, investments.
3. **Index Methodologies**: **Price-weighted**, **market-cap weighted**, **free-float**.
4. **Price-Weighted Index**: Sum of stock prices divided by divisor.
5. **Market-Cap Weighted Index**: Based on market capitalization.
6. **Free-Float Methodology**: Excludes locked-in shares.
7. **Index Divisor**: Adjusts for splits, dividends.
8. **NIFTY 50**: Tracks 50 large-cap stocks, free-float.
9. **BSE Sensex**: Tracks 30 stocks, free-float since 2003.
10. **NIFTY Next 50**: Companies ranked 51-100.
11. **NIFTY 100**: Combines NIFTY 50, Next 50.
12. **NIFTY 500**: Top 500 companies by market cap.
13. **NIFTY Midcap 150**: Companies ranked 101-250.
14. **Global Indices**: S&P Global BMI, MSCI World, FTSE.
15. **Bond Indices**: Track fixed income, e.g., FTSE-SBI Indian Bond.
16. **Composite Indices**: Combine stocks, bonds.
17. **Index Constituents**: Selected by liquidity, market cap.
18. **Liquidity Measure**: **Impact cost**, trading volume, trades.
19. **Index Rebalancing**: Adjusts constituents, weights.
20. **Free Float**: Excludes promoter, government holdings.
21. **Market Representation**: NIFTY 500 covers 96.1% NSE market cap.
22. **Benchmark Role**: Measures portfolio performance.
23. **Index Funds**: Passively track indices, low cost.
24. **ETFs**: Exchange-traded funds tracking indices.
25. **Index Calculation**: Daily updates based on prices.
26. **Impact Cost**: Cost of executing trades.
27. **Index Providers**: NSE Indices, BSE, MSCI.
28. **Sector Indices**: Track industries, e.g., NIFTY Bank.
29. **Thematic Indices**: Focus on ESG, technology.
30. **Index Volatility**: Reflects market fluctuations.
31. **Passive Investing**: Replicates index, low costs.
32. **Index Maintenance**: Adjusts for corporate actions.
33. **Liquidity Score**: Weighted by trading value, days.
34. **Investability**: Determined by liquidity, weights.
35. **Index Transparency**: Public methodologies, constituents.
36. **Global Market Linkages**: Reflect global trends.
37. **Index-Based Derivatives**: Futures, options on indices.
38. **Rebalancing Frequency**: Quarterly, semi-annual, event-driven.
39. **Index Performance**: Used for PMS, mutual fund benchmarking.
40. **Regulatory Oversight**: SEBI ensures methodology transparency.

CHAPTER 13: CONCEPT OF INFORMATIONAL EFFICIENCY

1. **Informational Efficiency**: Prices reflect all information.
2. **Operational Efficiency**: Low costs, high liquidity.
3. **Efficient Market Hypothesis (EMH)**: Prices reflect information.
4. **Weak-Form Efficiency**: Reflects historical price data.
5. **Semi-Strong Efficiency**: Reflects all public information.
6. **Strong-Form Efficiency**: Reflects public, private information.
7. **Random Walk Theory**: Price changes are random.
8. **Market Anomalies**: Deviations from EMH, e.g., **January effect**.
9. **January Effect**: Small-cap stocks rise in January.
10. **Momentum Anomaly**: Past gainers continue to rise.
11. **Value Anomaly**: Low P/E, P/B stocks outperform.
12. **EMH Tests**: Autocorrelation, event studies, insider trading.
13. **Weak-Form Tests**: Analyze price patterns, technical analysis.
14. **Semi-Strong Tests**: Study price reactions to announcements.
15. **Strong-Form Tests**: Examine insider trading profitability.
16. **Implications for Valuation**: Undervaluation rare in efficient markets.
17. **Portfolio Management**: Active strategies challenged in efficient markets.
18. **Passive Investing**: Preferred in efficient markets.
19. **Active Investing**: Exploits market inefficiencies.
20. **Behavioral Finance**: Explains anomalies via psychology.
21. **Market Efficiency Impact**: Affects stock selection, pricing.
22. **Information Availability**: Drives price adjustments.
23. **Price Predictability**: Limited in weak-form markets.
24. **Public Information**: Quickly incorporated in semi-strong markets.
25. **Insider Information**: Illegal, impacts strong-form efficiency.
26. **Anomaly Examples**: Size, weekend, earnings surprises.
27. **Size Effect**: Small-caps outperform large-caps.
28. **Weekend Effect**: Stocks differ on Mondays.
29. **Earnings Surprises**: Cause price jumps.
30. **EMH Criticism**: Behavioral biases challenge efficiency.
31. **Market Bubbles**: Suggest inefficiencies, driven by sentiment.
32. **Portfolio Implications**: Efficiency affects alpha generation.
33. **Technical Analysis**: Less effective in weak-form markets.
34. **Fundamental Analysis**: Challenged in semi-strong markets.
35. **Insider Trading Laws**: Enforce strong-form barriers.
36. **Market Transparency**: Enhances efficiency.
37. **SEBI Role**: Promotes efficiency via regulations.
38. **Anomaly Exploitation**: Active managers seek inefficiencies.
39. **Efficient Market Benefits**: Fair pricing, investor confidence.
40. **Market Efficiency Levels**: Vary across markets, assets.

CHAPTER 14: BEHAVIOURAL FINANCE

1. **Behavioral Finance**: Studies psychological influences on decisions.
2. **Standard Finance**: Assumes rational, utility-maximizing investors.
3. **Behavioral vs. Standard**: Accounts for irrational biases.
4. **Decision-Making**: Influenced by emotions, cognitive errors.
5. **Cognitive Biases**: Errors in reasoning, e.g., **overconfidence**.
6. **Emotional Biases**: Driven by feelings, e.g., **loss aversion**.
7. **Overconfidence Bias**: Overestimating knowledge, skills.
8. **Loss Aversion**: Fearing losses more than valuing gains.
9. **Anchoring Bias**: Relying on initial information.
10. **Herding Bias**: Following crowd, leading to bubbles.
11. **Mental Accounting**: Treating money differently by source/use.
12. **Prospect Theory**: Explains loss aversion, risk-seeking in losses.
13. **Heuristics**: Mental shortcuts causing biases.
14. **Confirmation Bias**: Seeking confirming information.
15. **Availability Bias**: Overweighting recent/vivid info.
16. **Regret Aversion**: Avoiding decisions to prevent regret.
17. **Framing Effect**: Decisions influenced by presentation.
18. **Disposition Effect**: Selling winners early, holding losers.
19. **Fusion Investing**: Combines behavioral, fundamental analysis.
20. **Market Anomalies**: Explained by behavioral biases.
21. **Momentum Anomaly**: Driven by herding, overreaction.
22. **Value Anomaly**: Linked to overreaction to bad news.
23. **Behavioral Impact**: Affects portfolio construction, risk.
24. **Investor Psychology**: Drives bubbles, crashes.
25. **Overreaction**: Exaggerated responses to new info.
26. **Underreaction**: Slow adjustment to new info.
27. **Piotroski Score**: Identifies strong value stocks.
28. **Behavioral Strategies**: Exploit biases for alpha.
29. **Portfolio Management**: Considers biases in risk profiling.
30. **Risk Perception**: Influenced by emotional, cognitive factors.
31. **Market Sentiment**: Driven by collective behavior.
32. **Behavioral Finance Tools**: Predict market movements.
33. **Investor Education**: Mitigates biases via awareness.
34. **SEBI Regulations**: Address behavioral-driven manipulations.
35. **Herding Risks**: Lead to volatility, bubbles.
36. **Loss Aversion Impact**: Encourages conservative choices.
37. **Overconfidence Risks**: Excessive trading, higher costs.
38. **Behavioral Anomalies**: Challenge EMH.
39. **Client Communication**: Addresses biases in discussions.
40. **Portfolio Optimization**: Uses behavioral insights.

CHAPTER 15: INTRODUCTION TO MODERN PORTFOLIO THEORY

1. **Modern Portfolio Theory (MPT)**: Framework for optimal portfolios.
2. **MPT Assumptions**: Rational, risk-averse investors; efficient markets.
3. **Risk-Averse Investor**: Prefers lower risk for same return.
4. **Risk-Seeking Investor**: Accepts higher risk for returns.
5. **Risk-Neutral Investor**: Indifferent to risk, focuses on returns.
6. **Expected Return**: Weighted average of asset returns.
7. **Portfolio Risk**: Depends on risks, correlations.
8. **Diversification**: Reduces **unsystematic risk**.
9. **Correlation Coefficient**: Measures asset co-movement, -1 to +1.
10. **Covariance**: Quantifies joint return movements.
11. **Efficient Frontier**: Portfolios with max return for risk.
12. **Portfolio Optimization**: Selects best risk-return mix.
13. **Expected Return Formula**: Sum of weighted asset returns.
14. **Portfolio Variance**: Includes variances, covariances.
15. **Risk Reduction**: Achieved via low/negative correlations.
16. **Markowitz Model**: Basis of MPT, mean-variance optimization.
17. **Risk Measurement**: Uses **standard deviation**.
18. **Portfolio Weights**: Determine asset allocation.
19. **Efficient Portfolio**: Lies on efficient frontier.
20. **Risk-Free Asset**: Zero variance, e.g., government bonds.
21. **Portfolio Construction**: Balances risk, return, goals.
22. **Correlation Impact**: Lower correlation reduces risk.
23. **Variance Calculation**: Combines asset risks, correlations.
24. **Optimization Constraints**: Budget, risk tolerance, liquidity.
25. **MPT Limitations**: Assumes normal returns, constant correlations.
26. **Risk-Return Tradeoff**: Higher returns require higher risk.
27. **Portfolio Diversification**: Spreads investments across assets.
28. **Efficient Frontier Graph**: Plots risk vs. return.
29. **Asset Allocation**: Key driver of performance.
30. **Covariance Calculation**: Measures asset co-movement.
31. **Standard Deviation**: Measures total portfolio risk.
32. **MPT Application**: Used in PMS for construction.
33. **Risk Aversion**: Influences portfolio weights.
34. **Expected Return Estimation**: Based on historical data.
35. **Portfolio Risk Formula**: Includes weights, variances.
36. **Diversifiable Risk**: Unsystematic, reduced by diversification.
37. **Non-Diversifiable Risk**: Systematic, affects all assets.
38. **MPT Tools**: Used in Excel/Calc for optimization.
39. **Client Risk Profile**: Guides MPT-based construction.
40. **Portfolio Selection**: Chooses optimal frontier portfolio.

CHAPTER 16: INTRODUCTION TO CAPITAL MARKET THEORY

1. **Capital Market Theory (CMT)**: Extends MPT with risk-free assets.
2. **CMT Assumptions**: Efficient markets, rational investors.
3. **Capital Market Line (CML)**: Plots return vs. total risk.
4. **Market Portfolio**: All risky assets, market-cap weighted.
5. **Risk-Free Asset**: Zero variance, e.g., T-bills.
6. **CML Formula**: Combines risk-free rate, market return.
7. **Systematic Risk**: Non-diversifiable, measured by **beta**.
8. **Non-Systematic Risk**: Diversifiable, reduced by portfolio.
9. **Capital Asset Pricing Model (CAPM)**: Relates return to systematic risk.
10. **Beta**: Measures asset's market sensitivity.
11. **Security Market Line (SML)**: Plots return vs. beta.
12. **CAPM Formula**: Return = risk-free rate + beta × market premium.
13. **Market Risk Premium**: Market return minus risk-free rate.
14. **Diversification**: Reduces non-systematic risk.
15. **Market Portfolio Role**: Benchmark for systematic risk.
16. **CML vs. SML**: CML uses total risk; SML uses beta.
17. **Risk-Free Borrowing**: Leverages portfolios for higher returns.
18. **CAPM Applications**: Asset pricing, portfolio evaluation.
19. **Empirical Tests**: Validate CAPM accuracy.
20. **Multi-Factor Models**: Extend CAPM with size, value factors.
21. **Fama-French Model**: Adds size, value to beta.
22. **Arbitrage Pricing Theory (APT)**: Uses multiple risk factors.
23. **Risk-Free Rate**: Typically government bond yield.
24. **Beta Calculation**: Covariance with market / market variance.
25. **SML Application**: Evaluates over/under-valued securities.
26. **Market Efficiency**: Assumed in CMT, impacts pricing.
27. **Portfolio Optimization**: Uses CMT for risk-return.
28. **Leverage Impact**: Increases risk and return.
29. **Risk Decomposition**: Separates systematic, unsystematic risks.
30. **CAPM Limitations**: Assumes single-factor risk, constant beta.
31. **Market Portfolio Composition**: All investable assets.
32. **Expected Return Estimation**: Based on CAPM, historical data.
33. **Risk Premium Calculation**: Market return minus risk-free.
34. **SML Slope**: Represents market risk premium.
35. **Portfolio Beta**: Weighted average of asset betas.
36. **CMT in PMS**: Guides allocation, evaluation.
37. **Risk-Free Asset Role**: Anchors CML, enables borrowing/lending.
38. **Multi-Factor Models**: Improve CAPM with additional factors.
39. **CAPM Testing**: Uses regression, market data.
40. **Portfolio Risk Management**: Balances risk, return via CMT.

CHAPTER 17: RISK

1. **Risk Definition**: Variability in actual vs. expected returns.
2. **Risk Management Process**: Identification, measurement, mitigation.
3. **Systematic Risk**: Market-wide, non-diversifiable.
4. **Unsystematic Risk**: Asset-specific, diversifiable.
5. **Business Risk**: Operational volatility, e.g., sales fluctuations.
6. **Financial Risk**: Due to debt financing.
7. **Liquidity Risk**: Difficulty selling assets at fair value.
8. **Exchange Rate Risk**: Currency fluctuation volatility.
9. **Political Risk**: Changes in political/economic environment.
10. **Geopolitical Risk**: Wars, terrorism affecting markets.
11. **Regulatory Risk**: Uncertainty from regulatory changes.
12. **Credit Risk**: Issuer default on debt payments.
13. **Market Risk**: Price volatility from market movements.
14. **Interest Rate Risk**: Impacts bond prices, portfolio value.
15. **Risk Measurement**: Uses **standard deviation**, **beta**, **VaR**.
16. **Standard Deviation**: Measures total risk.
17. **Beta**: Measures systematic risk vs. market.
18. **Value at Risk (VaR)**: Estimates potential loss.
19. **Risk Management Tools**: Diversification, hedging, derivatives.
20. **Diversification**: Reduces unsystematic risk.
21. **Hedging**: Offsets losses with derivatives.
22. **Stop-Loss Orders**: Limit losses by selling at threshold.
23. **Risk Tolerance**: Investor's ability, willingness to bear risk.
24. **Risk Profiling**: Assesses risk appetite, capacity.
25. **Risk-Return Tradeoff**: Higher risk demands higher returns.
26. **Portfolio Risk**: Combines asset risks, correlations.
27. **Correlation Impact**: Lower correlation reduces risk.
28. **Covariance**: Measures asset return co-movement.
29. **Risk Mitigation**: Asset allocation, rebalancing.
30. **Stress Testing**: Evaluates portfolio under extreme scenarios.
31. **Scenario Analysis**: Assesses event impacts.
32. **Risk Budgeting**: Allocates risk across assets.
33. **Derivatives in Risk Management**: Hedge, speculate.
34. **Liquidity Management**: Ensures cash needs met.
35. **Risk Monitoring**: Tracks portfolio risks.
36. **Regulatory Compliance**: SEBI mandates risk practices.
37. **Client Risk Profile**: Guides portfolio construction.
38. **Risk Reporting**: Informs clients of exposures.
39. **Volatility Impact**: Higher volatility increases risk.
40. **Risk-Adjusted Performance**: Evaluates returns vs. risk.

CHAPTER 18: EQUITY PORTFOLIO MANAGEMENT STRATEGIES

1. **Passive Management**: Tracks benchmarks, minimizes decisions.
2. **Active Management**: Outperforms benchmarks via selection.
3. **Passive Strategies**: **Index tracking**, **buy-and-hold**.
4. **Index Tracking**: Replicates index, e.g., NIFTY 50 ETF.
5. **Buy-and-Hold**: Maintains initial portfolio.
6. **Active Strategies**: Stock selection, market timing.
7. **Fundamental Law of Active Management**: Performance depends on skill, breadth.
8. **Information Ratio**: Excess return per active risk.
9. **Active vs. Passive**: Active seeks **alpha**, passive minimizes costs.
10. **Smart Beta**: Combines passive indexing, factor strategies.
11. **Factor-Based Portfolios**: Target **value**, **size**, **momentum**.
12. **Value Factor**: Low P/E, P/B stocks.
13. **Momentum Investing**: Buys recent price gainers.
14. **Size Factor**: Small-cap stocks for higher returns.
15. **Investment Styles**: **Growth**, **value**, **blend**, **core**.
16. **Growth Investing**: High-growth companies, higher risk.
17. **Value Investing**: Undervalued stocks, lower volatility.
18. **Core Strategy**: Combines growth, value.
19. **Socially Responsible Investing (SRI)**: Considers ESG criteria.
20. **Core-Satellite Approach**: Core tracks index, satellite seeks alpha.
21. **Alpha-Beta Separation**: Separates market return, excess return.
22. **Derivatives in Equity**: Hedge, enhance returns.
23. **Put Options**: Protect against price declines.
24. **Call Options**: Leverage upside potential.
25. **Global Active Strategy**: Invests across international markets.
26. **Sector Rotation**: Shifts based on sector performance.
27. **Stock Selection**: Uses fundamental, technical analysis.
28. **Portfolio Diversification**: Reduces unsystematic risk.
29. **Risk Management**: Uses derivatives, stop-loss.
30. **Performance Evaluation**: Compares to benchmarks, peers.
31. **Active Risk**: Deviation from benchmark returns.
32. **Tracking Error**: Portfolio deviation from index.
33. **Portfolio Turnover**: Frequency of asset replacement.
34. **Market Timing**: Adjusts based on forecasts.
35. **ESG Integration**: Incorporates environmental, social factors.
36. **Smart Beta ETFs**: Track factor-based indices.
37. **Alpha Generation**: Outperformance via active strategies.
38. **Risk-Adjusted Returns**: Sharpe, Treynor ratios.
39. **Portfolio Construction**: Aligns with client goals.
40. **SEBI Regulations**: Govern equity strategies, transparency.

CHAPTER 19: FIXED INCOME PORTFOLIO MANAGEMENT STRATEGIES

1. **Fixed Income Instruments**: Bonds, T-bills, corporate debt.
2. **Passive Strategies**: Track bond indices, e.g., **buy-and-hold**, **indexing**.
3. **Active Strategies**: Outperform bond benchmarks.
4. **Buy-and-Hold Strategy**: Holds bonds to maturity.
5. **Bond Indexing**: Replicates bond index, low cost.
6. **Active Management**: Interest rate anticipation, credit analysis.
7. **Interest Rate Anticipation**: Adjusts duration based on rate forecasts.
8. **Credit Analysis**: Evaluates issuer creditworthiness.
9. **Yield Spread Analysis**: Exploits yield differences.
10. **Duration Matching**: Aligns duration with horizon.
11. **Immunization**: Protects from rate changes.
12. **Laddering**: Staggered bond maturities.
13. **Barbell Strategy**: Short- and long-term bonds.
14. **Bullet Strategy**: Bonds at specific maturity.
15. **Global Fixed Income**: International bonds, currency risk.
16. **Derivatives in Bonds**: Hedge, enhance yields.
17. **Interest Rate Swaps**: Exchange fixed/floating rates.
18. **Credit Derivatives**: Hedge default risk, e.g., CDS.
19. **Bond Valuation**: Discounts cash flows at yield.
20. **Yield to Maturity (YTM)**: Total return if held to maturity.
21. **Current Yield**: Coupon divided by bond price.
22. **Duration**: Price sensitivity to yield changes.
23. **Modified Duration**: Percentage price change per yield.
24. **Convexity**: Adjusts for non-linear price-yield.
25. **Credit Spread**: Yield difference due to default risk.
26. **Bond Portfolio Risk**: Interest rate, credit, liquidity risks.
27. **Reinvestment Risk**: Reinvesting coupons at lower rates.
28. **Callable Bonds**: Issuer redeems early, affects yields.
29. **Putable Bonds**: Investor sells back, reduces risk.
30. **Zero-Coupon Bonds**: No coupons, sold at discount.
31. **Bond Ratings**: CRISIL AAA to D.
32. **Portfolio Diversification**: Spreads risk across bonds.
33. **Yield Curve Strategies**: Exploit curve shape.
34. **Active Bond Selection**: Based on credit, yield, duration.
35. **Passive Bond Selection**: Tracks index.
36. **Risk Management**: Uses derivatives, duration matching.
37. **Portfolio Rebalancing**: Restores target allocations.
38. **SEBI Regulations**: Ensure transparency.
39. **Global Bond Risks**: Currency, geopolitical risks.
40. **Performance Evaluation**: Compares to bond indices.

CHAPTER 20: PERFORMANCE MEASUREMENT AND EVALUATION OF PORTFOLIO MANAGERS

1. **Performance Parameters**: Risk and return define success.
2. **Rate of Return**: Arithmetic, geometric, time-weighted.
3. **Arithmetic Return**: Simple average of periodic returns.
4. **Geometric Return**: Compounded return over periods.
5. **Time-Weighted Return (TWRR)**: Eliminates cash flow effects.
6. **Money-Weighted Return (MWRR)**: Accounts for cash flow timing.
7. **Risk Measures**: **Standard deviation**, **beta**, **tracking error**.
8. **Standard Deviation**: Measures total risk.
9. **Beta**: Measures systematic risk.
10. **Tracking Error**: Deviation from benchmark.
11. **Risk-Adjusted Return**: Evaluates returns vs. risk.
12. **Sharpe Ratio**: Excess return per total risk.
13. **Treynor Ratio**: Excess return per systematic risk.
14. **Jensen's Alpha**: Excess return over CAPM.
15. **Information Ratio**: Excess return per active risk.
16. **Benchmarking**: Compares to index, peers.
17. **Peer Group Analysis**: Evaluates vs. similar portfolios.
18. **Performance Attribution**: Breaks down excess return sources.
19. **Sector Selection**: Contribution of sector choices.
20. **Stock Selection**: Contribution of stock picks.
21. **Timing Effect**: Impact of market timing.
22. **Portfolio Valuation**: Daily/periodic valuation.
23. **GIPS Standards**: Ensure fair performance reporting.
24. **GIPS Requirements**: Composite returns, disclosures.
25. **Composite Returns**: Aggregate similar portfolios.
26. **GIPS Disclosures**: Fees, benchmark, currency.
27. **Performance Reporting**: Gross/net returns, risk metrics.
28. **Client Reporting**: Periodic performance updates.
29. **Due Diligence**: Evaluates manager's process, track record.
30. **Portfolio Manager Selection**: Based on performance, strategy.
31. **GIPS Advertisement**: Discloses compliance, returns.
32. **Net Returns**: After fees, expenses.
33. **Gross Returns**: Before fees, expenses.
34. **Risk-Adjusted Metrics**: Essential for comparison.
35. **Benchmark Selection**: Aligns with strategy.
36. **Performance Periods**: Annualized for consistency.
37. **Attribution Analysis**: Identifies outperformance drivers.
38. **SEBI Regulations**: Mandate transparent reporting.
39. **Client Communication**: Clear performance updates.
40. **Excel/Calc Tools**: Used for performance calculations.

CHAPTER 21: PORTFOLIO REBALANCING

1. **Rebalancing Need**: Arises from market, investor changes.
2. **Portfolio Drift**: Deviation from target allocations.
3. **Market Movements**: Shift asset weights, alter risk.
4. **Investor Changes**: Employment, goals affect rebalancing.
5. **Rebalancing Definition**: Restores strategic allocation.
6. **Strategic Asset Allocation**: Long-term target weights.
7. **Tactical Asset Allocation**: Short-term market adjustments.
8. **Rebalancing Benefits**: Maintains risk-return profile.
9. **Transaction Costs**: Brokerage, taxes impact rebalancing.
10. **Tax Costs**: Capital gains from selling assets.
11. **Liquidity Costs**: Higher for illiquid assets.
12. **Time-Based Rebalancing**: Fixed intervals, e.g., quarterly.
13. **Threshold-Based Rebalancing**: Triggered by deviations.
14. **Tolerance Levels**: Set deviation limits, e.g., ±10%.
15. **Buy-and-Hold Strategy**: Passive, allows drift.
16. **Constant Mix Strategy**: Maintains target allocations.
17. **CPPI**: Constant Proportion Portfolio Insurance, balances assets.
18. **CPPI Floor**: Minimum portfolio value for capital protection.
19. **CPPI Cushion**: Portfolio value minus floor.
20. **CPPI Multiplier**: Determines risky asset allocation, 3-5.
21. **Risky Asset Allocation**: Multiplier × (Portfolio Value - Floor).
22. **Risk-Free Asset**: Government bonds, low risk.
23. **Rebalancing Frequency**: Balances costs vs. benefits.
24. **Threshold Triggers**: Predefined deviation limits.
25. **Portfolio Monitoring**: Tracks drift, performance.
26. **IPS Role**: Defines rebalancing policy, objectives.
27. **Risk Management**: Maintains desired risk exposure.
28. **Market Volatility**: Increases rebalancing need.
29. **Client Goals**: Rebalancing aligns with objectives.
30. **Tax Considerations**: Minimize tax liabilities.
31. **Transaction Cost Management**: Optimize trades.
32. **Liquidity Needs**: Influence rebalancing strategy.
33. **Rebalancing Challenges**: Costs, taxes, timing.
34. **Constant Mix Benefits**: Consistent risk exposure.
35. **CPPI Advantages**: Protects downside, captures upside.
36. **Rebalancing Policy**: Part of IPS, guides frequency.
37. **Portfolio Optimization**: Enhances risk-return efficiency.
38. **SEBI Compliance**: Ensures transparent practices.
39. **Client Communication**: Updates on rebalancing.
40. **Excel/Calc Tools**: Used for rebalancing calculations.

Important Formulas

Nominal Rate of Return (NRR):

NRR = [(1 + Real Rate of Return) × (1 + Expected Rate of Inflation)] - 1

1. **Future Value of Investment**:

   $FV = PV \times (1 + r)$

2. **Present Value of Future Cash Flow**:

   $PV = FV / (1 + r)$

3. **Expected Portfolio Return**:

   $E(R_p) = \Sigma (w_i \times E(R_i))$

4. **Portfolio Variance**:

   $\sigma_p^2 = \Sigma w_i^2 \sigma_i^2 + \Sigma \Sigma w_i w_j Cov_{ij}$

   Where w_i, w_j are weights, σ_i^2 is variance, Cov_{ij} is covariance

5. **Portfolio Standard Deviation**:

   $\sigma_p = \sqrt{(\sigma_p^2)}$

6. **CAPM Expected Return**:

   $E(R_i) = R_f + \beta_i (E(R_m) - R_f)$

7. **Sharpe Ratio**:

   Sharpe Ratio = $(R_p - R_f) / \sigma_p$

8. **Treynor Ratio**:

   Treynor Ratio = $(R_p - R_f) / \beta_p$

9. **Jensen's Alpha**:

   $\alpha = R_p - [R_f + \beta_p (R_m - R_f)]$

IMPORTANT NOTE :

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

July 2025

All the Best ☺

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