

## **Annexure 2: Test Objectives**

### ***NISM Series-XXI-A: Portfolio Management Services (PMS) Distributors Certification Examination***

#### **UNIT 1: Investment Landscape**

##### **1.1 Define Investment**

- 1.1.1 Distinction between saving and investment

##### **1.2 Know the Investment versus Speculation**

##### **1.3 Know the objectives of Investments**

- 1.3.1 Define Capital Preservation
- 1.3.2 Define Capital Appreciation
- 1.3.3 Define Current Income

##### **1.4 Estimating the required rate of return**

- 1.4.1 Understand the Concept of Nominal rate of return, Real rate of return and Expected Inflation
- 1.4.2 Understand the Concept of Risk Premium
- 1.4.3 Understand the various types of risks

- Business Risk
- Financial Risk
- Liquidity Risk
- Exchange Rate Risk
- Political Risk
- Geopolitical Risk
- Regulatory Risk

- 1.4.4 Understand the relationship between risk and return

##### **1.5 Explain the types of Investments**

- 1.5.1 Describe Equity: Role and Characteristics
- 1.5.2 Describe Fixed Income Securities: Role and Characteristics
  - Government versus corporate debt securities
  - High yield versus investment grade
  - Money Market versus capital market

- 1.5.3 Know the Commodities: Role and Characteristics

- 1.5.4 Know the Real Estates: Role and Characteristics

- 1.5.5 Know the Structured products

- 1.5.6 Know the Distressed Securities

- 1.5.7 Understand the Other investment opportunities

##### **1.6 Understand the channels for making investments**

- 1.6.1 Explain direct investments

- Registered Investment Advisers

- 1.6.2 Explain investments through managed portfolios

- Mutual Fund
- Alternative Investment Fund

- Portfolio Management Services
- Mutual Funds Alternate Investment Funds and Portfolio Managers

## **UNIT 2: Introduction to Securities Markets**

2.1 Understand the basics of Securities Markets

2.2 Understand the structure of securities markets with a discussion on primary and secondary markets

2.2.1 Explain Primary market

- Public Issue
- Initial Public Offer
- Further on Public Offer
- Right Issue
- Private Placement
- Preferential issue
- Qualified Institutional Placements
- Bonus issue
- Onshore and offshore offerings
- Offer for Sale
- Employee Stock Ownership Plan.
- Foreign Currency Convertible Bond (FCCB)
- Depository Receipts: ADR / GDR

2.2.2 Explain Secondary market

- Over-the-counter Market
- Exchange Traded Markets
- Trading,
- Clearing and Settlement
- Risk Management

2.3 Explain the various market participants and their activities

2.3.1 Explain Market Infrastructure Institutions and other intermediaries:

- Stock Exchanges
- Depositories
- Depository Participant
- Trading Member/Stock Brokers
- Authorized Person
- Custodians
- Clearing Corporation
- Clearing Banks
- Merchant Bankers
- Underwriters

2.3.2 Explain Institutional participants:

- Mutual Funds
- Pension Funds
- Insurance Companies
- Alternative Investment Funds

- Foreign Portfolio Investors (FPIs)
- Investment Adviser
- Employees' Provident Fund Organization (EPFO)
- National Pension System (NPS)
- Family Offices
- Corporate Treasuries

#### 2.3.3 Know the Retail participants

### **UNIT 3: Investing in Stocks**

#### 3.1 Understand Equity as an investment

#### 3.2 Understand Diversification of risk through equity instruments

#### 3.3 Explain Risks of equity investments

##### 3.3.1 Know Market risk

##### 3.3.2 Know Sector specific risk

##### 3.3.3 Know Company specific risk

##### 3.3.4 Know Transactional risk

##### 3.3.5 Know Liquidity risk

#### 3.4 Understand Overview of Equity Market

#### 3.5 Explain Equity research and stock selection

##### 3.5.1 Understand Fundamental Analysis

Top Down approach versus Bottom up Approach

Buy side research versus Sell Side Research

##### 3.5.2 Understand Stock Analysis process

Economy Analysis

Industry/Sector Analysis

Company Analysis

##### 3.5.3 Understand Fundamentals Driven model- Estimation of intrinsic value Discounted Cash Flow Model

##### 3.5.4 Explain Market driven Model - Relative Valuation

##### 3.5.5 Explain combining relative valuation and discounted cash flow models

#### 3.6 Explain Technical Analysis

##### 3.6.1 Know Assumptions of technical analysis

##### 3.6.2 Know Technical versus Fundamental Analysis

##### 3.6.3 Know Advantages of technical Analysis

##### 3.6.4 Know Technical Rules and Indicators

##### 3.6.5 Know Fixed Income Securities and Technical analysis

#### 3.7 Understanding corporate governance

### **UNIT 4: Investing in Fixed Income Securities**

#### 4.1 Overview of Fixed Income Securities

#### 4.2 Understand Bond Characteristics

Know Bonds with options

#### 4.3 Determinants of bond safety

#### 4.4 Explain Analysis and Valuation of Bonds

##### 4.4.1 Know Bond Pricing

##### 4.4.2 Understand Bond Yield Measures

4.5 Understand Measuring price volatility for bonds

4.5.1 Know Interest rate risk

4.6 Understand Determining duration

## **UNIT 5: Derivatives**

5.1 Definition of Derivatives

5.2 Understand the types of derivative products

5.2.1 Forwards

5.2.2 Futures

5.2.3 Options

5.2.4 Swaps

5.3 Understand Structure of derivative markets

5.4 Know the Purpose of Derivatives

5.5 Understand the concept of Commodity and Currency Futures and Options

5.6 Explain Underlying concepts in derivatives

## **UNIT 6: Mutual Fund**

6.1 Understand the Concept and Role of Mutual Fund

6.2 Explain the Benefits of investing through mutual funds

6.3 Know the Legal Structure of Mutual Fund in India

6.4 Understand the Working of mutual funds

6.5 Explain the Types of Mutual fund products

6.6 Explain Processes of investing in mutual funds

6.6.1 Know the Systematic transaction

6.7 Know Legal and Regulatory Framework – Key SEBI Regulation

6.8 Know Fact Sheet - Scheme Related Information

6.8.1 Know Reading mutual fund information

6.9 Explain Net Asset Value, Total Expense Ratio, Pricing of Units

6.10 Understand Mutual Fund Scheme Performance

6.11 Understand Key performance measures

## **UNIT 7: Role of Portfolio Managers**

7.1 Overview of portfolio managers in India

7.2 Explain Types of portfolio management services

7.2.1 Know Discretionary services

7.2.2 Know Non-discretionary services

7.2.3 Know Advisory services

7.3 Understand Organizational Structure of PMS in India

7.4 Understand the Registration requirements of a Portfolio Manager

7.5 Know the General Responsibilities of a Portfolio Manager

7.6 Explain Administration of investor's portfolio

7.6.1 Defining the universe of securities for the purpose of investments

7.6.2 Know Circumstances leading to pre-mature withdrawal of funds

7.6.3 Understand Do and don't for the portfolio managers

7.6.4 Know Appointment of custodian

7.6.5 Know Maintenance of records

- 7.6.6 Know Accounts and audit
- 7.6.7 Know Appointment of compliance officer

## **UNIT 8: Operational Aspect of Portfolio Managers**

- 8.1 Know the Entities which can invest in PMS
- 8.2 Explain disclosures to the prospective clients
  - 8.2.1 Understand Best Practices for the disclosures – Global Investment Performance Standards (GIPS)
- 8.3 Explain Process of on boarding of clients
  - 8.3.1 Know the Content of agreement between the portfolio manager and investor
- 8.4 Understand Direct On-boarding in PMS
  - 8.4.1 Know the Process flow
  - 8.4.2 Know the Joint Holder in PMS
- 8.5 Know the Liability in case of Default
- 8.6 Know about Redressal of Investors grievances
- 8.7 Understand Disclosures to the regulator
  - 8.7.1 Know Disclosures to SEBI
  - 8.7.2 Know Disclosures to Financial Intelligence Unit – India
- 8.8 Explain Costs, expenses and fees of investing in PMS
  - 8.8.1 Know High Water Mark
  - 8.8.2 Understand Hurdle Rate

## **UNIT 9: Portfolio Management Process**

- 9.1 Understand the Importance of Asset allocation decision
- 9.2 Understanding correlation across asset classes and securities
- 9.3 Explain Steps in Portfolio Management Process
  - 9.3.1 Know Investment Policy Statement (IPS)
  - 9.3.2 Understand Need for IPS
  - 9.3.3 Know Constituents of IPS
  - 9.3.4 Understand the Investment Objectives
  - 9.3.5 Understand the Investment Constraints
  - 9.3.6 Know the Assessments of needs and requirements of investor
  - 9.3.7 Analysing the financial position of the investor
  - 9.3.8 Understand Psychographic analysis of investor
  - 9.3.9. Understand Life cycle analysis of investor
  - 9.3.10. Describe Forecasting risk and return of various asset classes
  - 9.3.11. Know benchmarking the client's portfolio
- 9.4 Know Asset allocation decision
- 9.5 Understand Strategic versus Tactical Asset Allocation
  - 9.5.1 Know the Importance of asset allocation decision—empirical support
- 9.6 Explain Rebalancing of Portfolio
  - 9.6.1 Understand Benefits and difficulties of rebalancing

## **UNIT 10: Performance measurement and evaluation of Portfolio Managers**

- 10.1 Parameters to define performance – risk and return
- 10.2 Explain Rate of return measures
  - 10.2.1 Understand holding period return

- 10.2.2 Time weighted Rate of Return (TWRR) versus Money weighted Rate of return (MWRR)
- 10.2.3 Explain Arithmetic Mean Return (AMR) vs. Geometric Mean Return (GMR)
- 10.2.4 Explain Gross versus net return
- 10.2.5 Understand Pre-tax versus post tax return
- 10.2.6 Explain Compounded Annual Growth Rate
- 10.2.7 Understand Annualizing return
- 10.2.8 Understand Cash drag adjusted return
- 10.2.9 Explain Alpha and Beta return
- 10.2.10 Understand Portfolio Return
- 10.3 Explain Risk measures
  - 10.3.1. Explain Total risk and downside risk
  - 10.3.2 Understand Portfolio risk versus individual risk
  - 10.3.3 Understand Systematic Risk and Unsystematic Risk
  - 10.3.4 Know Tracking error
- 10.4 Understand Risk adjusted return
  - 10.4.1 Understand Sharpe Ratio
  - 10.4.2 Understand The Treynor Ratio
  - 10.4.3 Understand Sharpe versus Treynor Measure
  - 10.4.4 Understand Sortino Ratio
  - 10.4.5 Understand Information Ratio (Appraisal ratio)
  - 10.4.6 Understand M2 Measure
- 10.5 Explain Performance Evaluation: Benchmarking and peer group analysis
  - 10.5.1 Understand Characteristics of indices for Benchmarking
  - 10.5.2 Know Customized Benchmark
  - 10.5.3 Know Managers' universe analysis
- 10.6 Explain Performance attribution analysis
  - 10.6.1. Know Assets and Sector Allocation
  - 10.6.2. Know Selection
  - 10.6.3. Understand Local currency versus foreign currency denominated investment return
- 10.7 Understand Performance reporting to the Investor
- 10.8 Understand Due Diligence and Portfolio Manager selection
- 10.9 Understand Global Investment Performance Standard (GIPS)
- 10.10 Explain GIPS Advertisement Guidelines

## **UNIT 11: Taxation**

- 11.1 Explain Taxation of investors
  - 11.1.1 Understand Residential status
  - 11.1.2 Know Place of Effective Management (POEM)
  - 11.1.3 Understand Scope of total income
  - 11.1.4 Understand Characteristics of income
- 11.2 Explain Taxation of various streams of income
  - 11.2.1 Understand Capital Gains
  - 11.2.2 Understand Dividend income
  - 11.2.3 Understand Interest income
  - 11.2.4 Know Business income

- 11.2.5 Know Entitlement of benefit under Double Tax Avoidance Agreement (DTAA)
- 11.3 Understand Section 9A of Income Tax

**UNIT 12: Regulatory, Governance and Ethical Aspects of Portfolio Managers**

- 12.1 Explain Prevention of Money Laundering Act, 2002
- 12.2 Explain SEBI (Prohibition of Insider Trading) Regulation 2015
- 12.3 Explain SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003
- 12.4 Explain Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020
  - 12.4.1 Understand Code of conduct for portfolio manager
  - 12.4.2 Understand Code of conduct for PMS Distributors
- 12.5 Explain Best practices for portfolio Managers
  - 12.5.1 Understand Research objectivity
  - 12.5.2 Know Soft dollar practices