Portfolio Management Service (PUN007)

(PMS) is a professional financial service where skilled portfolio managers and stock market professionals manage your equity portfolio with the assistance of a research team. Many investors have equity portfolios in their Demat Account but managing them can be a challenge. PMS is a systematic approach to maximise returns while minimising the risk factor on your investments. It enables you to make sound decisions that are supported by extensive research and factual data without lifting a finger. Additionally, it better prepares you to deal with market adversity. portfolio management services or PMS offer customised investment solutions to investors to help them attain their financial goals. Portfolio management services construct investment portfolios across various investment options, and portfolio managers take care of the investment portfolio, portfolio management services help investors maximise returns over time by focusing on the time horizon, risk profile and investment objectives. Many high net worth Individuals (HNIs) opt for portfolio management services as tailor-made portfolios are constructed after considering investment horizon, risk tolerance, liquidity, and taxation. Moreover, entities offering PMS services must be registered with SEBI, eliminating fraud and malpractices, portfolio management services are popular among HNIs, HUFs, partnership firms, NRIs, association of persons, Sole Proprietorships etc. Portfolio management services specify a minimum ticket size for investor portfolios, for instance, PMS started with a minimum ticket size of Rs 5 lakh in 1993, subsequently hiked it to Rs 25 lakh. Moreover, SEBI further hiked the PMS ticket size to Rs 50 lakh in November 2019.

Portfolio Management Services in India: **Active Portfolio Management** focuses on generating higher returns than a benchmark index like the Nifty 50 or the BSE Sensex. The portfolio manager actively manages the investment portfolio, and the research team picks the requisite securities, investors who have a higher risk appetite and seek higher capital gains opt for Active Portfolio Management. The portfolio manager selects undervalued stocks and sells them at a higher price when they realise their true potential. Moreover, the portfolio manager diversifies the portfolio across investment options to mitigate investment risk, **Passive Portfolio Management** involves mimicking the performance of a market index such as the Nifty 50. The fund manager tracks and replicates the stock market index portfolio to give investors returns in line with the index it tracks, Passive Portfolio Management focuses on index funds which are mutual funds that mimic market index portfolios. Moreover, the Passive Portfolio Management strategy involves lower transaction costs as the portfolio manager doesn’t churn the portfolio frequently compared to Active Portfolio Management, **Discretionary Portfolio Management** Services portfolio manager has complete control over the portfolio and can adopt any strategy to achieve investment objectives, Investment Decisions are entirely at the portfolio manager’s discretion, and the clients don’t have much of a say in investment decisions. Under **Non-Discretionary Portfolio Management** Services, the portfolio manager gives investment ideas. However, clients decide whether to take up these investment ideas while the execution of trades rests with the portfolio manager. In Non-Discretionary Portfolio Management Services, the fund manager suggests investment strategies and works according to the direction given by the client.

The objectives of Portfolio Management: Capital appreciation: Many investors opt for PMS to earn higher returns from a professionally managed portfolio. The focus remains on risk-adjusted returns from investments,

Regular income: Many people opt for PMS to get a steady income. The main objective of the portfolio manager is the protection of capital and consistent benefits from investments.

Liquidity: Many investors opt for PMS to convert their investments into cash as soon as possible. It is vital if they need money to start a business. In such cases, the portfolio manager builds customised portfolios to cater to clients’ liquidity needs,

Tax Planning: PMS focuses on tax planning to increase the after-tax return of investments. It helps to construct a portfolio after looking into the tax efficiency of investments. In simple terms, PMS offers the twin advantages of capital appreciation and higher after-tax returns from investments.

Asset Allocation: The portfolio manager focuses on asset allocation, the investment strategy that balances risk and returns. It involves spreading investments across the asset classes of stocks, fixed income securities, cash, commodities and real estate. Asset Allocation makes sure that a sharp fall in one asset class does not impact the overall portfolio performance.

Diversification: Diversification is a technique of allocating capital across a variety of investments. While asset allocation focuses on the percentage of stocks, bonds and cash in your portfolio, diversification involves spreading assets across asset classes within these buckets. Portfolio managers of PMS use the diversification strategy to enhance the portfolio’s risk-adjusted returns.

Rebalancing: PMS Portfolio Managers focus on rebalancing the portfolio to align with investors’ financial goals and risk tolerance.

Portfolio management focuses on developing investment strategies to help investors attain their financial goals based on the investment horizon and risk profile. Portfolio managers build customised portfolios to match clients’ requirements of capital appreciation, regular income or liquidity. As per SEBI Portfolio Managers Regulations, 2020 a portfolio manager who under a contract relating to portfolio management, exercises or may exercise, any degree of discretion as to the investment of funds or management of the portfolio of securities of the client, as the case may be. In other words, discretionary portfolio manager individually and independently manages the funds of each investor as per the contract. This could be based on an existing investment approach or strategy which the portfolio manager is offering or can be customized based on client’s requirement. The underlying theme behind various attribution analysis approaches is to dissect the return into majorly two components: return driven by the benchmark and the differential return. And then identifying and quantifying the sources of differential return to primarily establish whether it was driven by skill of the portfolio manager or some random factors. As per SEBI (Prohibition of Insider Trading) Regulations 2015, Clause 12 (B) - Without prejudice to the power of the Board under the Act, the code of conduct shall stipulate the sanctions and disciplinary actions, including wage freeze, suspension, recovery, clawback etc., that may be imposed, by the intermediary or fiduciary required to formulate a code of conduct under sub-regulation (1) and sub-regulation (2) of regulation 9, for the contravention of the code of conduct. Any amount collected under this clause shall be remitted to SEBI for credit to the Investor Protection and Education Fund administered by SEBI under the SEBI Act. Liquidity risk is measured by impact cost. The impact cost is the percentage price movement caused by a particular order size (let’s say an order size of Rs.1 lakh) from the average of the best bid and offer price in the order book snapshot. The impact cost is calculated for both the buy and the sell side. Less liquid stocks are more thinly traded, and a single large trade can move their prices considerably. Such stocks have high impact costs. A lower market impact implies the stock is more liquid. The three steps in the portfolio management process are planning, execution, and feedback. In this step, the portfolio manager needs to understand a client's needs and develop an investment policy statement (IPS). There are multiple types of mutual funds, and the best depends on the investor's investment objective. For example, mutual funds can be categorised based on their structure (open-ended or close-ended or interval funds). They can also be classified based on the asset class, such as Equity, Debt and Hybrid Funds.

Open interest is a measure of the flow of money into a futures or options market. Increasing open interest represents new or additional money coming into the market while decreasing open interest indicates money flowing out of the market. Spending Phase: This is the period when living expenses are covered not from earned income but from accumulated assets such as investments and retirement corpus. Because of the heavy reliance on investments in this phase and the unlikelihood of going back to work, the focus is on stability in investment portfolio. Preference will be on investment that generate dividend, interest, and rental income. Mutual fund is a vehicle (in the form of a trust) to mobilize money from investors, to invest in different markets and securities, in line with stated investment objectives. SEBI (Mutual Fund) Regulations, 1996 define mutual fund as a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold-related instruments or real estate assets, The Treynor measure adjusts excess return for systematic risk. It is computed by dividing a portfolio's excess return, by its beta. As Treynor ratio indicates return per unit of systematic risk. Hence it is a useful measure of performance if an investor wishes to evaluate a portfolio in combination with other actively managed portfolios. The relationship between yield to maturity and coupon rate of bond may be stated as follows: • When the market price of the bond is less than the face value, i.e., the bond sells at a discount, YTM coupon yield. • When the market price of the bond is more than its face value, i.e., the bond sells at a premium, YTM < coupon yield. • When the market price of the bond is equal to its face value, i.e., the bond sells at par, YTM = coupon yield. BBB - Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk. High Water Mark is the highest value that the portfolio/account has reached. The portfolio manager charges performance-based fee only on increase in portfolio value in excess of the previously achieved high water mark.

Thank You…