

## **Annexure 2: Test Objectives**

### **Unit 1: Investment Landscape**

#### 1.1 Define Investment

1.1.1 Distinction between saving and investment

#### 1.2 Know 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

1.3.4 Define Tax Savings

#### 1.4 Estimating the required rate of return

1.4.1 Understand the Concept of Nominal risk-free rate, real risk-free rate and expected inflation

1.4.2 Understand the Concept of Risk Premium

1.4.3 Understand the relationship between risk and return

#### 1.5 Understand the various types of risks

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

#### 1.6 Explain the types of Investments—Role and Characteristics

1.6.1 Describe Equity

1.6.2 Describe Fixed Income Securities

1.6.3 Know the Commodities

1.6.4 Know the Real Estates

1.6.5 Know the Structured products

1.6.6 Other non-traditional investment opportunities

#### 1.7 Understand the channels for making investments

1.7.1 Explain direct investments

- Distributors
- Brokers
- Registered Investment Advisers

1.7.2 Explain investments through managed portfolios

- Mutual Fund
- Portfolio Management Services
- Alternative Investment Fund

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

#### 2.1 Understand the basics of Securities Markets

#### 2.2 Understand primary and secondary markets

### 2.2.1 Explain Primary market

- Public Issue
- Initial Public Offer
- Further Public Offer
- Right Issue
- Private Placement
- Preferential issue
- Qualified Institutional Placements
- Bonus issue
- Offer for Sale

### 2.2.2 Explain Secondary market

- Over-the-counter Market
- Exchange Traded Markets
- Other Terms
  - 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

### 2.3.2 Explain Institutional participants:

- Banks
- Mutual Funds
- Pension Funds
- Insurance Companies
- Alternative Investment Funds
- Foreign Portfolio Investors (FPIs)
- 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 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 Understand Diversification of risk through equity instruments
- 3.4 Explain Equity research and stock selection
  - 3.4.1 Understand Fundamental Analysis
    - Top Down approach versus Bottom up Approach
  - 3.4.2 EIC Approach to Stock Selection
    - Economy Analysis
    - Industry Sector Analysis
    - Company Analysis
- 3.5 Understand Estimation of intrinsic value
  - 3.5.1 Discounted Cash Flow Analysis
  - 3.5.2 Asset Based Valuation
  - 3.5.3 Relative Valuation (Multiple Based)
    - Price-to-Earnings (P/E x),
    - Price Earnings-to-Growth (PEG x)
    - Price-to-Book Value (P/BV x),
    - Enterprise Value to EBIDTA (EV/EBIDTA x),
    - Price-to-Sales (P/S x),
    - Price – to- Operating Cash Flow (P/OFCF x)
- 3.6 Explain Technical Analysis
  - 3.6.1 Know Assumptions of technical analysis
  - 3.6.2 Know Technical versus Fundamental Analysis

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

- 4.1 Overview of Fixed Income Securities
- 4.2 Understand Bond Characteristics
  - 4.2.1 Know Bonds with options
- 4.3 Determinants of bond safety
- 4.4 Explain Valuation of Bonds
  - 4.4.1 Know Intrinsic Value of a Bond
  - 4.4.2 Understand Bond Yield Measures
- 4.5 Understand Measuring price volatility for bonds
  - 4.5.1 Know Interest rate risk
  - 4.5.2 Know how to determine Macaulay's Duration
  - 4.5.3 Know the concept of modified 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 Derivatives
- 5.6 Explain Underlying concepts in derivatives
  - Zero sum game
  - Settlement Mechanism
  - Maintaining Margins
- 5.7 Derivatives in PMS

## **UNIT 6: Collective Investment Vehicles**

- 6.1 Understand the Concept and Role of Collective Investment Vehicles
  - 6.1.1 Mutual Funds
  - 6.1.2 Real Estate Investment Trust (REITs)
  - 6.1.3 Infrastructure Investment Trust (InvTs)
  - 6.1.4 Alternate Investment Funds: Concept and Role
- 6.2 Know the Legal Structure of Mutual Fund, REITs, InvTs and AIFs
- 6.3 Types and Working of Mutual Funds, REITs, InvTs and AIFs

## **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 Know Organizational Structure of PMS in India
- 7.4 Know the General Responsibilities of a Portfolio Manager
- 7.5 Explain Administration of investor's portfolio
  - 7.5.1 Defining the universe of securities for the purpose of investments
  - 7.5.2 Know Circumstances leading to pre-mature withdrawal of funds
  - 7.5.3 Understand Do and don't for the portfolio managers
  - 7.5.4 Know Appointment of custodian
  - 7.5.5 Know Maintenance of records
  - 7.5.6 Know Accounts and audit
  - 7.5.7 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 Known the Written down policies by Portfolio Manager
  - 8.2.2 Know about Fair and equitable treatment to all Clients.

- 8.2.3 Requirements with respect to investments in all instruments
- 8.3 Explain Process of On-boarding of clients
  - 8.3.1 Reading of Disclosure Document
  - 8.3.2 Fulfilling KYC requirements
  - 8.3.3 Submitting duly filled application form
  - 8.3.4 Content of agreement between the portfolio manager and investor
  - 8.3.5 Most Important Terms and Conditions (MITC)
  - 8.3.6 Direct On-boarding in PMS
  - 8.3.7 Know the Process flow
  - 8.3.8 Know about the Joint Holder concept in PMS
- 8.4 Know the Liability in case of Default
- 8.5 Know about Redressal of Investors grievances
- 8.6 Understand Disclosures to the regulator
  - 8.6.1 Know Disclosures to SEBI
  - 8.6.2 Know Disclosures to Financial Intelligence Unit – India
- 8.7 Explain Costs, expenses and fees of investing in PMS
  - 8.7.1 Know High Water Mark
  - 8.7.2 Understand Hurdle Rate
- 8.8 Know about the Performance Reporting to the Investor

## **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 Risk Profile of the investor
  - 9.3.3 Understand the Investment Objectives
  - 9.3.4 Understand the Investment Constraints
  - 9.3.5 Know the Assessments of needs and requirements of investor
  - 9.3.6 Analysing the financial position of the investor
  - 9.3.7 Describe Forecasting risk and return of various asset classes
  - 9.3.8 Know benchmarking the client's portfolio
- 9.4 Know Asset allocation decision
  - 9.4.1 Know Understand Strategic Asset Allocation
  - 9.4.2 Know Tactical Asset Allocation
  - 9.4.3 Comparison between Strategic and Tactical Asset Allocation
  - 9.4.4 Factor based Investing
- 9.5 Explain Rebalancing of Portfolio
  - 9.5.1. Know Needs of Rebalancing
  - 9.5.2. Know Benefits of Rebalancing
  - 9.5.3. Challenges in Rebalancing

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

### 10.1 Explain Rate of return measures

- 10.1.1 Understand holding period return
- 10.1.2 Understand Extended Internal Rate of Return (XIRR)
- 10.1.3 Understand Time weighted Rate of Return (TWRR)
- 10.1.4 Explain Gross versus net return
- 10.1.5 Understand Pre-tax versus post tax return
- 10.1.6 Known Portfolio Return

### 10.2 Explain Risk measures

- 10.2.1. Explain Total risk and downside risk
- 10.2.2 Understand Portfolio risk versus individual risk
- 10.3.3 Understand Systematic Risk and Unsystematic Risk

### 10.3 Understand Risk adjusted return

- 10.4.1 Understand Sharpe Ratio
- 10.4.2 Understand Treynor Ratio
- 10.4.3 Understand Sharpe versus Treynor Measure

### 10.4 Explain Performance Evaluation: Benchmarking and peer group analysis

- 10.4.1 Understand Characteristics of indices for Benchmarking
- 10.4.2 Know Customized Benchmark
- 10.5.3 Know Managers' universe analysis

### 10.5 Explain Performance attribution analysis

### 10.7 Understand Performance reporting to the Investor

### 10.8 Know Valuation of Securities by Portfolio Manager

### 10.7 Understand Due Diligence and Portfolio Manager selection

## **UNIT 11: Taxation**

### 11.1 Explain Categories of Investors

- 11.1.1 Know Resident Individuals (RIs)
- 11.1.2 Know Non-Resident Indians (NRIs)
- 11.1.3 Know Non-Individuals

### 11.2 Explain Taxation of different asset classes

- 11.2.1 Taxation of Debt investments
- 11.2.2 Taxation on Equity Investments
- 11.2.3 Taxation on Derivatives

### 11.3 Understand if Fees and Expenses are tax deductible

### 11.4 Tax Reporting and Compliance

### 11.5 Portfolio Investment Scheme for NRIs

## **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 PMS Distributors

12.5 Investor Charter for Portfolio Management Services