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Portfolio Managers Regulated By SEBI to Make It More Investor Friendly

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***Abstract** – The essential elements of the SEBI (Portfolio Managers) Regulations, 2020 are discussed in this article. It attempts to examine this new legal reform and all of the significant changes that it contains. It also aims to determine how these changes will affect the sector and whether or not they will be advantageous to investors. SEBI (Portfolio Managers) Regulations, 2020 is a significant step forward in incorporating market and investor needs into the regulatory framework. This study examines the significant changes brought about by the new reform. It also suggests some additional areas where the regulator should focus during the implementation phase. The new PMS Regulations provide more transparency and consistency for the PMS business. Clients of PMS will be able to better comprehend and compare the terms of various Portfolio Managers' services.*

***Key Words** – Securities and Exchange Board of India (SEBI), Portfolio Management Service (PMS), principal officer (PO), Association of Mutual Funds in India (AMFI)*

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INTRODUCTION

On August 2, 2019, the Securities and Exchange Board of India ("SEBI") issued a consultation paper, in response to a perceived need to review the 1993 Regulations and improve transparency in portfolio manager dealings. The paper sought public comments on recommendations made by a working group of industry participants in relation to the SEBI (Portfolio Managers) Regulations of 1993. ("1993 Regulations"). The SEBI (Portfolio Managers) Regulations, 2020 ("2020 Regulations") were notified on January 16, 2020, and took effect on January 20, 2020, superseding the 1993 Regulations. Before we proceed, it's critical to understand what Portfolio Management entails.

WHAT IS PORTFOLIO MANAGEMENT SERVICES?

Before diving into the definition of portfolio management services, it's vital to first define what portfolio management is. Portfolio management is the art and science of choosing and managing investments that meet long-term financial objectives and risk tolerance. Portfolio management needs the capacity to analyse strengths, weaknesses, opportunities, and dangers in every asset class. All things are linked together, which means trade-offs exist.

Passive or active portfolio management options, both are available.

- Setting and forgetting is a long-term strategy for passive management. An investment in exchange-traded funds (ETFs) (ETFs). To index means to index investments. MPT is useful for creating Indexed portfolios since it assists with portfolio optimization.

- By employing active management, it is possible to outperform the market index. Most closed-end funds are handled aggressively. Quantitative or qualitative models may be used by active managers to assist with investment evaluations.[1]

Portfolio Management is an investment analysis and portfolio management technique. It is an investment product for high net-worth investors. You would manage your investments through self-service instead. This service is remarkable because it gives the user an end to the complications and headaches involved with stock ownership. Therefore, study and analysis of the stock, tracking all commercial and political events which can potentially damage your investment. That is overdoing it.

in PMS, investors have to do nothing Investing is all in the hands of pros. These professionals comprehend the investment goals, and then they design strategies accordingly. The portfolio manager undertakes all the research and decides on the allocation of funds. They monitor all actions and keep investors updated about portfolio changes.

THE PROCESS OF PORTFOLIO MANAGEMENT

Portfolio Management Service is a method for analysing investments and managing portfolios. It is a type of financial instrument that is typically used by high-net-worth individuals. It's more of a portfolio management service for folks who can't manage their own investments. The reason this service is unique is that it frees the customer from all of the headaches and difficulties that come with stock investing. Specifically, stock research and analysis, as well as maintaining watch of all commercial and political activity that may have an impact on your investment. For a working professional, that's far too much work.

Investors in PMS essentially have to do nothing. Investment professionals oversee the entire portfolio. These experts have a solid awareness of the investing objectives and develop strategies accordingly. The portfolio manager conducts all of the stock research and makes all of the fund allocation choices. They keep track of all actions and bring the investors up to date on the portfolio's progress.

PORTFOLIO MANAGEMENT AS A PROCESS

The PMS is designed to allow investors to hand over their portfolio to someone who has the knowledge and abilities to make investing decisions on their behalf. The portfolio manager, according to this view, has complete control over the portfolio. The investor, on the other hand, has access to your portfolio at the end of the day. Investors can access their demat account at any time and obtain real-time information about their holdings. The most important thing they should know is that the Demat and trading account are always in the name of the investor (subscriber). As a result, the account holder is the single recipient of all earnings, losses, dividends, and bonus shares, as well as the account's tax liability.

Portfolio management can be done in a number of ways:

- Risk Assessment

It is the initial step in the portfolio development process, and it entails assessing risk factors as well as predicted returns of individual securities, as well as their suitability for the investor's risk appetite and financial objectives.

- Portfolio Evaluation

Following the identification of viable stocks and the associated risk, a variety of workable portfolios can be constructed.

- Portfolio Management

The ideal portfolio, which is best suited for the investor based on his needs and goals, is chosen from all of these possible portfolios.

- Revision of your portfolio

Once the portfolio has been chosen, the portfolio manager and team of research analysts keep a careful eye on it to ensure that no opportunities for the client to earn the best returns are missed.

- Portfolio Assessment

At this point, the portfolio's performance is evaluated on a regular basis to determine the quantitative measurement of the return received vs the risk associated in the portfolio during the course of the PMS investment. If modifications to the portfolio are required to meet a given return expectation, the asset allocation is also changed during this phase, assisting in the achievement of the target within a specified time frame.

TYPES OF PORTFOLIO MANAGEMENT SERVICES IN INDIA

Two types of PMS are available in India discussed below:

- **PMS on discretionary basis**

The service provider has complete control over purchasing, selling, and strategizing in this scenario. The service provider is under no duty to consult the investor before making any decisions on his or her behalf. Discretionary service is provided by the majority of India's top PMS.

- **PMS on a non-discretionary basis**

The investor has a say in all portfolio actions in this form. He or she might provide the manager recommendations and ideas. Despite the fact that this strategy allows investors more freedom, it defeats the objective of PMS because the professional portfolio manager, regardless of education or ability, must consult the investor before making critical decisions. Non-discretionary PMS is regarded unproductive because of these difficulties.

OBJECTIVES OF THE PORTFOLIO MANAGEMENT SERVICE

When creating a portfolio for you, the service provider considers your goals in order to give you with the highest potential results.

- Allocation of Assets

The long-term asset mix is critical to portfolio management performance. Examples of this are stocks, bonds and "cash," for example bank certificates. Others are referred to as alternative

investment, such as real estate, commodities and derivatives. The distribution of assets is based on the awareness that diverse assets are not locked up and that some are volatile. The integration of a variety of assets guarantees a well-balanced portfolio against risk. More aggressive investors want more variable investment in their portfolios, such as growth firms. Conservative investors support more stable investments in their portfolios such as bonds and blue chip companies.

- The Principal Amount Invested Is Safe

The portfolio manager should always make sure that the starting investment amount is maintained. That is, the investment's value should not fall below the amount initially invested. A set cost is also offered by some PMS.

- Diversification of portfolio

Diversification means distributing risk and return within an asset class. Diversification is achieved through investing in a variety of assets, sectors of the economy, and geographic regions. The strategy is to put together a portfolio of investments that gives you a broad view of an asset class.

- Rebalancing

Periodically, the portfolio's allocation is rebalanced to revert to its original target allocation. This is to return the asset mix to its original state during market swings. For example, an 80/20 portfolio can shift to a 70/30 portfolio following a sustained market rally. The investor has profited, but the portfolio has a higher level of risk now. This technique of buying low and selling high is called rebalancing. The rebalancing technique allows investors to take advantage of increases in high-potential sectors while also widening the range of opportunities for growth. Also, some PMS offers a set price.

- Profitability on a regular basis.

Any portfolio management solution must also be able to deliver predictable returns. The only way to assist the client and fulfil his financial objectives within a specified time frame is to deliver consistent performance over time. SPMS charges a predetermined fee as well.

- Charges for PMS (Project Management Services)

The fees and charges associated with using portfolio management services are the most major downsides of doing so. The fees charged by PMS are separated into three categories. An upfront cost, a management fee, and a performance fee are the three types of fees that are charged. Some PMS companies also charge a flat fee for their services.

Reason of Overhaul

The Portfolio Management Industry in India (PMI) has grown rapidly. The PMI's total Assets under Management ("AUM") was at INR 18, 07,938 at the end of April 2019, while the number of clients stood at 151618.[2] Simultaneously, per capita disposable income has risen from INR 80,472 in March 2012 to INR 1, 51,618 in April 2019, indicating that the industry would continue to expand. The number of clients has also increased significantly, demonstrating that the PMS business plays an important role in managing the funds of High Net-worth Individuals.

With this industry's tremendous expansion, issues are expected that will effect not just the distribution side of the business, but also the fundamental portfolio selection and management decisions.[3] SEBI anticipated the need to update the SEBI (Portfolio Managers) Regulations, 1993 in light of this. The regulator formed a Working Group, which issued its report in August 2019. The majority of the suggestions in the report were approved by SEBI, with a few exceptions. As a result, the PMS Regulations, 2020, were published, introducing important fundamental changes to PM regulation.

The fundamental goal of the new development is to improve controls and transparency in the mainly unregulated industry, with the twin goal of safeguarding investors and retaining the industry's appeal. The introduction of a defined role for the Principal Officer ("PO") and eligibility criteria for a PM's employees, as well as increased capital adequacy requirements for PMs and increased ticket sizes for client investments, restrictions on permissible investible instruments, and standardisation of fees charged to clients, are all notable changes.

MAJOR NOTABLE CHANGES

Role of PO defined and eligibility criteria

In the last five years, the PMI has grown at an 18 percent compound annual growth rate ("CAGR"), with AUM rising from INR 6.04 lakh crore to INR 13.70 lakh crore. Discretionary PMS has expanded at a faster rate, with a CAGR of 41% during the same time period. As a result, PMI's AUM of discretionary PMS has increased by 5.5 times, from INR 18,166 crore to INR 99,825 crore. The 2020 PMS Regulations included the following adjustments to business structure requirements.

- **The PO's Function**

The previous PMS Regulations only stipulated a human resource requirement for PM registration, without specifying the duties and responsibilities of

such individuals. It stipulated that a qualified PO and a minimum of two qualified employees be employed.

A PO is a key person responsible for the essential duties and activities of portfolio management, according to SEBI. He could be a PM, but he could also be a Chief Investment Officer, Chief Executive Officer, or any other person in charge of critical investment choices in PM. The PMS Regulations 2020 clarified the situation by defining PO as follows:[4]

*"**Principal Officer**" means an employee of the portfolio manager who has been designated as such by the portfolio manager and is responsible for:- (i) the decisions made by the portfolio manager for the management or administration of portfolio of securities or the funds of the client, as the case may be, and (ii) all other operations of the portfolio manager."*

- **More stringent eligibility criteria**

According to the Working Group, the nature of the fund management process necessitates a comparison of educational qualifications and job experience. As a result, it advocated for dual qualifying standards that addressed both features. This advice was adopted into the PMS Laws, 2020, which gave POs and PMs registered under the previous regulations a 36-month window to become compliant.

PO must have a professional qualification (in finance, law, accounting, or business management) from a university or an institution recognised by the Central Government or State Government, or a foreign university, or a CFA Charter from the CFA Institute, according to the PMS Regulations, 2020.

Additionally, the PO must have at least five years of experience in equivalent securities market activity. A minimum of two years of experience in PMS, Investment Advisory Services, or other fund management-related fields is necessary.

Finally, the PO must obtain the relevant NISM Certificate, as SEBI may require from time to time.

- One employee must be employed in addition to the PO and Compliance Officer.

The PMS Regulations 2020 made it mandatory for PMs to hire at least one employee in addition to the PO and Compliance Officer, who must meet the following qualifications:

- Graduation from a federally recognised university, a state-sponsored university, or a foreign university; and
- At least two years of experience in securities market-related operations, such as portfolio management, stockbroking, investment advisory, or fund management.

If such an employee has decision-making responsibility over funds, the same minimal qualifications and experience would be required as for a PO. PMs who were previously registered under the old Regulations have been given a twelve-month window to comply with this requirement.

ENHANCED ELIGIBILITY REQUIREMENTS

Client's minimum investment

The minimum investment amount per client has been raised to Rs. 50 lakhs, up from Rs. 25 lakhs previously.[5]. This move was made to ensure that PMS is exclusively used by high-net-worth individuals (HNIs), and that retail investors should use mutual funds instead. The Working Group noted that NIFTY was at 5,381.60 on February 10, 2012, and that it had more than quadrupled to 11,788.85 by June 30, 2019. Similarly, the Consumer Price Index climbed from 86.81 to 142.00 within the same time period. As a result, the Working Group views this increase in ticket size as essentially a long-overdue catch-up.

Apart from that, PMS are considered more dangerous and better suited to investors with a larger risk appetite. PMS investment options are riskier and more complicated than mutual funds. Individual investors with weak risk knowledge will be safeguarded under the mutual fund regime, which is more stringently regulated, and increasing the restriction is wise. In order to reduce retail investors' risk, increasing the leverage cap was proposed by the Working Group.

SEBI took note of stakeholders' worries that such a significant increase in ticket size will deter sector participants because INR 50 lakh is too much money to deposit in a single investment. Despite this, SEBI approved the Working Group's proposals, claiming that the lack of prudential standards for PMS investments makes it difficult and risky, and so best suited to people who can take a lot of risks.

However, the shift may limit the expansion of the PMS sector because the market of investors will shrink as the investment amount is doubled. As a result, while making the services more investor-friendly, it's unclear whether the company's exceptional growth will continue.

A manager's net worth is required

Fund managers' minimum net worth has been raised from 2 crore rupees to 5 crore rupees.[6] Existing registered fund managers have a 36-month grace period to improve their net worth.[7] The higher threshold will reduce the number of new or existing firms seeking to register or renew their licence. The criterion is significantly less than the Rs. 25 lakhs in net worth required for investment advisors[8], Despite the fact that the services supplied by both service providers are comparable.

The change was made with the goal of discouraging non-serious participants, but it may also hinder other players who fit other criteria but have an income limit.

In view of several variables such as inflation, growing income levels, rising compliance expenses, and an increase in the minimum number of employees, the Working Group believed that such an enhancement was justified. It also believes that this will serve as a deterrent to non-serious players throughout fresh application processes, as well as put pressure on marginal players who coexist with serious PMs.

SEBI discussed the opposition to such a move among stakeholders, who noted that this enhancement could be harmful to PMs who have registered with the INR 2 Crore net worth threshold in the recent year or so. SEBI took note of comments to the effect that portfolio management is a service industry, not a capital intensive one, and that there should be no financial barriers to young entrepreneurs and analysts with extensive knowledge and work experience launching start-ups that provide personalised portfolio management services.[9]

SEBI, on the other hand, dismissed the criticism, claiming that it was necessary to keep the proposal because the high net worth criteria would ensure that only well-prepared investors would participate in the PMI, especially as portfolio management has “no skin in the game.”[10] This is a divisive and unnecessary entry barrier that keeps candidates out for the wrong reasons.

Investment in unlisted securities

Under the previous regime, PMS investments were seen in listed, unlisted, equity, and debt structured products. This was because the 1993 Regulations did not prohibit PMs from investing on behalf of their clients in any certain type of investment.

The Working Group recommended that PM investments be limited to listed securities on behalf of clients, with mutual fund investments subject to particular conditions. However, SEBI decided to modify this criterion in the case of non-discretionary/advisory PMS after careful review.[11] As a result of the 2020 Regulations, discretionary PMs can invest client funds in securities listed or traded on a stock exchange, money market instruments, mutual fund units, and other securities as determined by SEBI from time to time.

Non-discretionary/advisory PMs, on the other hand, are not exempt from the requirement to invest only in listed securities. In addition to the stocks approved for discretionary PM, such PMs may invest or provide advice for up to 25% of the Client's AUM in unlisted securities.

Investment in mutual funds is subject to specific restrictions, such as the fact that unit purchases must be made through a direct plan and that the PM cannot charge the client any distribution or referral fees in this respect.

Finally, the PMS Regulations of 2020 prohibit PMs from investing the funds of their clients in a portfolio managed or overseen by another PM.

STANDARDIZATION OF PAYMENT OF COMMISSION

Structure of Fees

In terms of fee range, distributor commission, exit loads, and operational costs, the Working Group stated that the various variations of catch-up clauses in practise led to a lack of understanding and transparency. As a result, it was suggested that the charge structure and procedure be standardised and rationalised.

It was discovered that the client was charged 100% upfront costs, which were then given as commission to the distributor, causing the distributor to push for upfronted products. To stop this wrongdoing, the Working Group recommended that the Distributor Commission be charged solely on a trial basis. According to the Working Group, trail-based income would not put a load on business calls.

In light of the many variants of performance fee catchups, SEBI stated that Performance Fee will be levied solely on the amount over and above the hurdle rate, based on the "high watermark concept," and that it will release a circular describing a finite set of models for calculating the same.

Another suggestion was that prospective clients be informed about the range of costs imposed under various headings in the Client Agreements to improve transparency. The Working Group also recommended that operating expenses (excluding brokerage) that exceed annual management fees be restricted at 0.05 percent per annum and subject to the following restrictions:

Structure of Exit Loads

Exit loads varied from PM to PM, ranging from 1% to 8%, and might last up to 5 years, according to previous regulations. Exorbitant exit loads are against investor interest, hence the Working Group felt it was necessary to eliminate this variance and standardise exit load structure.

Furthermore, for cap-based exit loads, the time for calculating exit costs will begin on the date of each inflow/top-up. Clients should be charged no more than 3%, 2%, or 1% exit costs if they redeem their portfolio (in part or whole) in the first, second, or third year of their investment with PM, according to the

working group. After three years from the date of investment, no exit costs can be levied to clients.

Services available to Group Companies are limited

A major element is the implementation of a cap on services available to Group companies. A limit of 20% by value per associate (or such percentage as defined by Regulations) every calendar quarter, according to the Working Group, could be imposed to establish an arm's length relationship between PM and his associates. The same obligation applies if PM is also registered as a stock broker, depository participant, or custodian, among other things, and executes transactions through these registrations. Furthermore, any fees or charges paid to associates must not exceed those given to non-associate intermediaries providing equivalent services.

Uniform reporting

Previously, a periodical report had to be sent to the client every six months, but now a performance report must be submitted to the client every three months, coupled with disclosure of a coupon payment default or debt security default, or a credit rating agency downgrade. Regularly reporting to clients is a start in the right direction. The working group's recommendation for reporting, which was not included in the new legislation, is a standard format for the client's report. There are currently no criteria limiting the report's content, or what the manager is required to include. As a result, there is a lot of diversity in how performance is reported. Because of the non-standard reporting format, clients find it difficult to evaluate the performance of different portfolio managers and make educated decisions about a service provider. A reporting structure was recommended by the working group, however it was rejected by SEBI. Given the service's increasing popularity, standard disclosure was a necessary. The imbalance of information between the manager and the client would have been reduced by using a uniform reporting style, allowing clients to make more informed decisions.

Restriction on off-market transfers

Taking lessons from the recent Karvy fiasco, the PMS Regulations 2020 take a cautious approach by prohibiting off-market transfers from/to customer accounts, with specified exceptions to allow for operational ease. The following are the exemptions:

- to settle the client's own trades
- to provide margin/collateral for the client's own position
- in conformity with the regulations, for dealing in unlisted securities
- with the client's express permission for each transaction;
- for any other cause that the Board may specify from time to time.

Other changes

The phrase "change in its managing director or whole-time director" has been removed from the definition of "change of status or constitution" of PMS Regulations 2020. The appointment of a custodian was also made necessary for all PMs. The requirements for disclosure and reporting have been simplified.

SEBI has published various guidelines on February 13, 2020, further revising the regulatory compliance framework for PMs Guidelines. The following are some of these guidelines:

Supervision of Distributors

Only distributors having a valid AMFI Registration or who have passed the NISM Series-V-A exam can now be used by PMs. Furthermore, it has been specified that distributors must pay fees/commissions on a trial basis only, and that such fees/commissions can only be paid from the money collected by the PMs, not from their own books. During the onboarding process, PMs must also inform prospective clients about the fees / commissions collected by distributors.

PMs must verify that distributors follow the Code of Conduct outlined in the Guidelines, as well as have a method in place for independent verification of such compliance. Furthermore, within fifteen days of the end of each financial year, they must receive a self-certification from distributors regarding such compliance.

Fees and Charges

The PMS Regulations make it illegal for PMs to charge clients any upfront fees, either directly or indirectly. While the Guidelines provide that the PMs' brokerage can be charged to customers as an expense, the total operating expenses, excluding fees for portfolio management services and brokerage, are now limited to 0.50 percent of the clients' average daily assets under management.

Furthermore, if a client's portfolio is partially or fully redeemed, the exit load levied by the PM can be up to 3% of the redemption value in the first year of investment, 2% in the second year, and 1% in the third year. After three years from the date of investment, no exit load can be levied. Furthermore, charges for all transactions undertaken by a PM through self or associates in any financial year, including broking, demat, custody, and other services, shall be capped at 20% by value per associate (or self) for each service; and such charges cannot be higher than those paid to non-associates providing the same service.

Clients are directly onboarded

Clients will now have the option of being onboarded directly by the PMs instead of via a distributor, and this option will be provided in the disclosure agreement, marketing materials, and on the PM's website. Furthermore, a PM can levy no charges other than statutory charges in the case of such direct onboarding.

Approach to Investing

The disclosure document, marketing materials, and other materials must all provide a description of the investment objective, categories of securities, portfolio allocation, benchmark, indicative tenure, risks, and other information.

Reporting on Performance and Other Disclosures

Compliance with provisions such as disclosure of benchmark index performance to customers, board assessment of compliances, and so on must now be reported to SEBI annually rather than biannually. In addition, within six months after the end of each financial year, PMs must submit to SEBI a certificate from a chartered accountant proving their net worth. Additionally, within sixty days at the end of each fiscal year, SEBI must get a compliance certificate.

Modifications in control, the principal officer, fees, charges, investing technique, and any other change listed by SEBI are all examples of major changes in the disclosure document that must be disclosed to SEBI within seven working days.

The Guidelines require that cash holdings and liquid fund investments be included in the calculation of performance statistics, and that performance data be determined net of fees and charges. Furthermore, the firm's performance must be audited yearly. A confirmation of compliance with the performance reporting duties mentioned in the Guidelines should be delivered to SEBI within sixty days of the end of each financial year.

Aside from that, the PMs should give their clients with a quarterly report explaining their portfolio management activity as well as the portfolio's performance. The PM has to provide a monthly report on the SEBI Intermediaries Portal explaining its portfolio operations within seven working days of each month's end.

Under the PMS Regulations, a Portfolio Manager is expected to comply with a number of legal and regulatory requirements. This prompted the recruitment of a Compliance Officer, who, in addition to the Principal Officer, would be responsible for all legal and regulatory compliance.

According to Regulation 34 of the PMS Regulations, the function of compliance officer shall not be assigned to the Portfolio Manager's senior officer or to any of the Portfolio Manager's staff. Although the PMS Regulations of 1993 did not specifically state this. This means that each Portfolio Manager will need to choose someone with the relevant legal experience and skills, and it must be verified that the post is not assigned to the Portfolio Manager's chief officer or staff.

CONCLUSION

For the first time, the idea of "investment approach" is included in the agreement between the portfolio manager and the customer under the new legislation, which was previously absent. An investment approach is a high-level overview of the types of securities and permissible instruments that a portfolio manager might consider investing in for a customer, taking into account client and security-specific factors. As a result, offering clients with services that are tailored to their specific needs and expectations is another step in the direction of investor-friendly regulations. More openness and uniformity are provided for the PMS industry as a result of the new PMS Regulations. Clients of Portfolio Management Systems will be better able to comprehend and evaluate the terms of various Portfolio Managers' services. The considerable changes made by the SEBI are intended to restore investor confidence while also ensuring that the industry has a bright future. Changes such as increased client investment and increased portfolio manager net worth are acceptable outcomes; nevertheless, if the ultimate goal is to increase PMS participation, SEBI should have looked into the implementation aspects of these objectives. By requiring clients to make a minimum investment, for example, you are working against the larger purpose of extending the investor base by decreasing the market and interfering with the freedom to contract and the right to choose from the investment opportunities available. Additional costs associated with compliance will be incurred by the portfolio manager as a result of the enhanced eligibility criteria for the position of a principle officer. It is hoped that the Securities and Exchange Board of India will revisit the significant recommendations that were neglected and include them into the current regulations.

When creating a portfolio for you, the service provider considers your goals in order to give you with the highest potential results.

- Allocation of Assets

The long-term asset mix is the key to successful portfolio management. Stocks, bonds, and "cash," such as certificates of deposit, are examples of this. Others, such as real estate, commodities, and derivatives, are referred to as alternative

investments. Asset allocation is based on the knowledge that different assets do not move in lockstep and that some are more volatile than others. A well-balanced portfolio safeguards against risk by incorporating a variety of assets. Investors with a more aggressive profile favour more volatile investments, such as growth companies, in their portfolios. Conservative investors favour more stable investments such as bonds and blue-chip stocks in their portfolios.

- The Principal Amount Invested Is Safe

The portfolio manager should always make sure that the starting investment amount is maintained. That is, the investment's value should not fall below the amount initially invested. A set cost is also offered by some PMS.

- Diversification of your portfolio

One of the most significant goals of the portfolio management service is to achieve this. One of the most crucial components of any portfolio manager's job is to provide sufficient diversity based on the needs of the investors. The one certainty in investing is that reliably predicting winners and losers is impossible. The wise strategy is to put together a portfolio of investments that gives you a broad view of an asset class. Within an asset class, diversification means distributing risk and return. Diversification tries to capture the returns of all sectors over time while lowering volatility at any particular time because it is difficult to predict which subset of an asset class or sector will outperform another. Diversification is achieved through investing in a variety of assets, sectors of the economy, and geographic regions.

- Rebalancing

At regular periods, usually in a year, rebalancing is performed to return a portfolio to its original target allocation. This is done to return the asset mix to its original state when market fluctuations throw it off.

For example, a portfolio with a 70 percent stock and 30 percent fixed-income allocation could transition to an 80/20 allocation after a prolonged market rally. Although the investor has made a profit, the portfolio now contains more risk than the investor can bear.

Selling high-priced stocks and investing the proceeds in lower-priced and out-of-favor equities is referred to as rebalancing.

The annual rebalancing procedure allows the investor to take advantage of gains and broaden the chance for growth in high-potential sectors while

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