

Unit V — Active Portfolio Management & Mutual Funds

Investment and Portfolio Management | BMB FM 01 / KMBN FM 01

Unit V: Active Portfolio Management, Performance Evaluation and Mutual Funds

Syllabus: Portfolio management and performance evaluation — performance evaluation of an existing portfolio; Sharpe, Treynor and Jensen measures; finding alternatives and revision of portfolio; portfolio management and the mutual fund industry.

Exam Blueprint (2022–2025 papers)

Topic	Years asked	Marks
Portfolio evaluation — purpose and measures	2024, 2025	2 & 7
Mutual funds — growth in India, types	2022, 2024	2 & 10
Portfolio revision	2022	2
Debt fund vs Equity fund	2022	10
Close-ended mutual fund	2022	2
What is a portfolio	2025	2

YE QUESTION BAAR-BAAR AAYA HAI

Sharpe, Treynor aur Jensen — teeno formulas ratt lo, kyunki numerical bhi aa sakta hai aur theory bhi. Aur **mutual funds** ka 10-marker do baar aa chuka hai.

1. Portfolio and Portfolio Management

DEFINITION - RATTA MAARO

A **portfolio** is a **combination of two or more securities or assets** held by an investor, constructed so as to obtain the **best possible combination of return and risk** in line with the investor's objectives.

(A 2-mark question in 2025-26.)

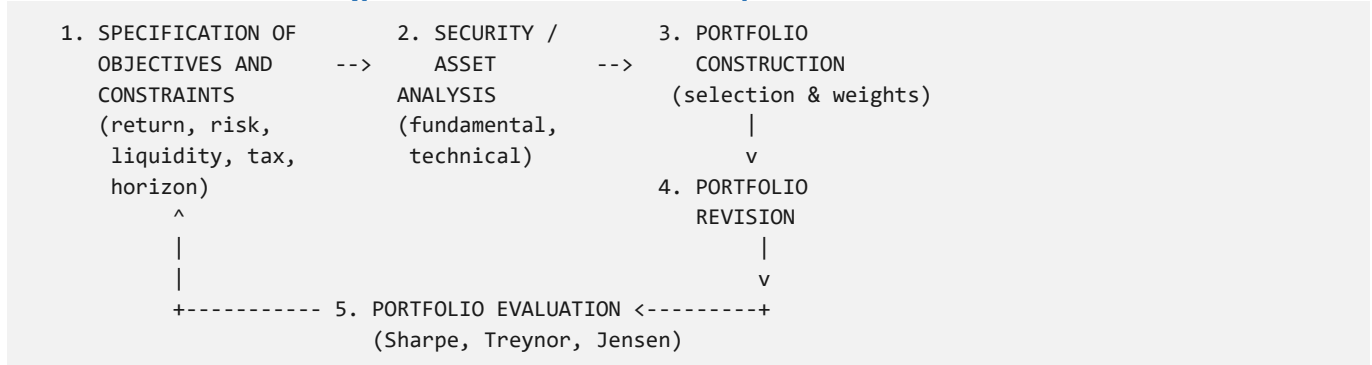
DEFINITION - RATTA MAARO

Portfolio management is the **art and science of selecting, combining, monitoring and revising** a group of investments so as to meet the investor's long-term financial objectives and risk tolerance.

1.1 Objectives of Portfolio Management

Primary: maximise return for a given risk; **minimise risk** through diversification; ensure **capital appreciation** and **safety of principal**; and maintain adequate **liquidity**. **Secondary:** provide **regular income**; hedge against **inflation**; achieve **tax efficiency**; and maintain **marketability** of the holdings.

1.2 The Portfolio Management Process — five steps



- 1. Specification of investment objectives and constraints** — return requirement, risk tolerance, liquidity needs, time horizon, tax position, legal and unique constraints
- 2. Selection of asset mix / asset allocation** — how much in equity, debt, gold, cash. *Research shows asset allocation explains the large majority of portfolio return variation — more than individual stock selection*
- 3. Formulation of portfolio strategy** — **active** (attempt to beat the market) or **passive** (track an index)
- 4. Selection of securities** — using fundamental and technical analysis
- 5. Portfolio execution, revision and evaluation** — implement, monitor, rebalance and measure performance

1.3 Active vs Passive Portfolio Management

Basis	Active management	Passive management
Objective	Beat the benchmark index	Match the index
Belief about markets	Markets are not fully efficient ; mispricing exists	Markets are efficient (EMH)
Method	Stock picking, market timing, sector rotation	Buy and hold an index portfolio
Turnover and cost	High — brokerage, taxes, research	Very low
Expense ratio	High (1–2.5%)	Very low (0.05–0.5%)
Risk	Manager/selection risk added	Only market risk
Evidence	Most active managers underperform the index after fees	Delivers the market return reliably

2. Portfolio Revision

DEFINITION - RATTA MAARO

Portfolio revision is the process of **periodically reviewing and altering the composition of an existing portfolio** — by buying, selling or changing the weights of securities — so that it continues to meet the investor's objectives as market conditions, security prospects and personal circumstances change.

(A 2-mark question in 2022-23.)