



CIRCULAR

SEBI/HO/IMD/IMD-PoD-2/P/CIR/2022/172

December 16, 2022

To,

All Portfolio Managers

Association of Portfolio Managers in India ('APMI')

Dear Sir / Madam,

Subject: Performance Benchmarking and Reporting of Performance by Portfolio Managers

1. SEBI, *vide* circulars SEBI/HO/IMD/DF1/CIR/P/2020/26 dated February 13, 2020 and SEBI/HO/IMD/DF1/CIR/P/2021/02 dated January 8, 2021, specified various modalities related to Portfolio Managers including, *inter-alia*, reporting of performance/periodic reporting by Portfolio Managers.
2. In order to help investors in assessing the performance of a Portfolio Manager, the applicable requirements related to performance reporting and benchmarking by Portfolio Managers has been reviewed as under:

Performance Benchmarking

- 2.1. An investment approach ('IA') is the documented investment philosophy to be adopted by the Portfolio Managers while managing the client funds in order to achieve client's investment objectives. Now, in addition to IA, an additional layer of broadly defined investment themes called "Strategies" shall be adopted by Portfolio Managers. These broad Strategies shall be 'Equity', 'Debt', 'Hybrid' and 'Multi Asset'.
- 2.2. Each IA shall be tagged to one and only one Strategy from the Strategies as above. This tagging shall be at the discretion of the concerned Portfolio Manager. A Portfolio Manager may tag more than one IA to a Strategy, but each IA must be tagged to only one Strategy.
- 2.3. APMI shall prescribe a maximum of three benchmarks for each Strategy. These benchmarks shall reflect the core philosophy of the Strategy. While tagging an IA to a particular Strategy, the Portfolio Manager shall select one benchmark from those prescribed for that Strategy to enable the investor to evaluate relative performance of the Portfolio Managers.
- 2.4. The Board of the Portfolio Managers shall be responsible for ensuring appropriate selection of Strategy and benchmark for each IA.



- 2.5. Once an IA is tagged to a Strategy and/or to a benchmark, the tagging shall be changed only after offering an option to subscribers to the IA to exit without any exit load. The performance track record (of the specific IA whose tagging with Strategy/ benchmark was changed) prior to the change shall not be used by the Portfolio Manager for performance reporting. Further, the same shall be verified as part of annual audit under Regulation 30 of the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020 ('PM Regulations').
- 2.6. The changes in Strategy and/ or benchmark shall be recorded with proper justification and shall be verified as part of the annual audit under Regulation 30 of the PM Regulations.

Valuation of Securities by Portfolio Managers

- 2.7. APMI shall prescribe standardized valuation norms for Portfolio Managers same as the corresponding norms applicable to the Mutual Funds. Valuation of the portfolio debt and money market securities by portfolio managers shall be carried out in accordance with these standardized valuation norms prescribed by APMI.
- 2.8. APMI shall empanel valuation agencies for the purpose of providing security level prices to Portfolio Managers. Portfolio Managers shall mandatorily use valuation services obtained only from one or more of such empanelled valuation agencies for the purpose of valuation of debt and money market securities in portfolios managed by them. The ultimate responsibility for fair valuation shall be that of the Portfolio Manager.

Reporting of Performance

- 2.9. Portfolio Manager shall present the Time-weighted Rate of Return ('TWRR') of the IA along with the trailing return of the selected benchmark when communicating/ advertising/ publishing/ mentioning performance of an IA.
- 2.10. Portfolio Manager shall present the Extended Internal Rate of Return ('XIRR') for each IA the investor invests in when reporting performance to an investor. This shall be accompanied by the minimum, maximum and median XIRR return generated across all investors in each of the IA the investor has invested in. The TWRR of the respective IA(s) and the trailing return of the benchmark(s) selected shall also be presented separately. Following disclaimer must accompany this disclosure:

"Please note that performance of your portfolio may vary from that of other investors and that generated by the Investment Approach across all investors because of

- 1) the timing of inflows and outflows of funds; and*

2) *differences in the portfolio composition because of restrictions and other constraints.”*

2.11. The following shall not be mentioned or implied in performance reporting or in any other communication in any form by the Portfolio Managers:

2.11.1. Any other categorization/ classification of IAs, except for the Strategy that they are tagged to.

2.11.2. Model Portfolio returns

2.11.3. The performance of one or more cherry-picked investor(s)

However, aggregated performance statistics of all investors in an IA may be used by a Portfolio Manager for aggregated performance reporting.

2.12. Formats placed at Annexure – 1 of this Circular shall replace format at Section E “Performance Data” in Annexure-A of SEBI Circular no. SEBI/HO/IMD/DF1/CIR/P/2021/02 dated January 8, 2021.

2.13. Portfolio Manager shall disclose relative performance of its investment approach in all the marketing material where performance of the concerned investment approach is being presented. Such disclosure of relative performance shall, at minimum, include the following:

2.13.1. Performance relative to the selected benchmark

2.13.2. Performance relative to other Portfolio Managers within the selected Strategy

2.14. Verification of all the above performance statistics shall be carried out in the annual audit under Regulation 30 of the PM Regulations.

2.15. Portfolio Managers shall also submit the monthly reports to APMI in addition to SEBI within 7 working days from the end of each month. APMI shall make available the monthly reports of the Portfolio Managers on APMI website in an intuitive and user-friendly manner facilitating ease of comparison so as to provide access to portfolio level, investment approach level, portfolio manager level and industry level information to all the stakeholders. APMI shall also make available relative performance of each investment approach within the strategy to concerned portfolio manager and also disclose the same on its website.

3. Applicability:

3.1. The provisions of this Circular shall be applicable with effect from April 01, 2023.



- 3.2. The provisions of para 2.9 to 2.15 of this Circular shall be applicable to any entity reporting/ publishing/ advertising performance of any IA of any Portfolio Manager. All other provisions of this Circular shall be applicable to the Portfolio Managers.
- 3.3. Portfolios of investors/ clients of Portfolio Manager shall not be covered under the circular if,
 - 3.3.1. Investors are governed by separate statutes like Provident Funds (Employees' Provident Fund Organization, Coal Mines Provident Fund Organization, Exempted Provident Fund Trusts), Employee State Insurance Corporation, Postal Life Insurance, etc.
 - 3.3.2. The non-individual Investors are regulated by RBI, IRDA & PFRDA for whom specific valuation and/or benchmarking norms have been specified by the concerned regulator(s).
subject to verification of compliance with the above conditions in the annual audit under Regulation 30 of the PM Regulations.
- 3.4. Portfolio Managers shall not advertise/ publish/ mention to any entity other than those belonging to the investor category to which said IA is offered the returns of the IAs where exception as above has been exercised. Portfolio Managers may, however, include the assets managed in such IAs in their total AUM when communicating publicly as well as in regulatory reporting.
4. All other requirements of the Circulars dated January 8, 2021 and February 13, 2020 shall remain unchanged.
5. The Portfolio Managers and APMI shall take necessary steps for implementing the circular including putting required processes and systems in place to ensure compliance with the provisions of this circular.
6. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 43 of SEBI (Portfolio Managers) Regulations, 2020, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

Chhavi M. Kapoor
General Manager
Investment Management Department
Tel: 022 – 26449112
Email: chhavim@sebi.gov.in



Annexure – 1: Formats for monthly reporting to SEBI/ APMI

Table 1

Name of the Portfolio Manager Registration number			TWRR Returns (%)								
Strategy	Investment Approach	AUM (INR Cr.)	1 Month	3 Months	6 months	1 Year	2 Year	3 Year	4 Year	5 Year	Since Inception
Strategy 1	IA 1										
	Benchmark 1										
	IA 2										
	Benchmark 2										
Strategy 2	IA 3										
	Benchmark 3										
Strategy 3	IA 4										
	Benchmark 1										
	IA 5										
	Benchmark 3										
	IA 6										
	Benchmark 1										

Table 2

Name of the Portfolio Manager	Portfolio Turnover Ratio	
Investment Approach	1 month	1 year
IA 1		
IA 2		
IA 3		
IA 4		
IA 5		
IA 6		