HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

January 28, 2026

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About HSBC Arbitrage Fund

- Enters into simultaneous transactions of a long position in cash and exactly offsetting short position in futures.
- Equity position is completely hedged at trade initiation.
- Towards the expiry or before the expiry of the derivatives contract, the positions are reversed or rolled over.

Market Actions & Overview

- The average roll spreads captured this month was 6.91% annualized.
- Allocation towards hedged equities is at 71.73.
- No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- January month saw huge market volatility. Rolls began at 60 bps levels gradually falling to 50-52 bps levels by the end of the week prior to the expiry.
- On the expiry day, rolls went up to 56-57 bps levels but at subdued volumes.
- NSE NIFTY declined 3.6% in Jan'26 (MTD) – after decreasing by 0.3% in Dec'25.
- AUM of Arbitrage Funds increased compared to previous expiry (Rs 3,33,215 Crs vs Rs 3,26,657 Crs).
- This month average roll basis was lower than previous expiry, 53 bps vs 64 bps previous month.

Market Movements (Domestically)

- The goods trade deficit rose marginally to USD 25 bn in Dec-25 (Nov-25: $24.5 bn), with both exports ($38 bn; 1% MoM) and imports ($64 bn; 1% MoM) increasing slightly.
- Exports to the US declined marginally ($6.9 bn; -1% MoM), while those to the rest of world, ticked up ($31.6 bn; 2% MoM).
- Headline CPI inflation rose to 1.33% in Dec-25 (Est: 1.59%, Prior: 0.71%), but with food price deflation continuing (F&B CPI: -1.9% YoY).
- Monthly momentum declined to 0.1% MoM (vs 0.3% prior) – the lowest since Sep-25.
- Currently, Jan-26 headline CPI is tracking at 2.3%.
- Going into the next month all eyes will now be on how the India EU deal plays out, with deep tariff cuts bilaterally, helped by possible ironing out of some issues such as EU's push for tariff reductions on auto/spirits, data protection norms, and India's priorities around data localization, greater labor, and services mobility.

Inception Date
30th June 2014

Benchmark[1]
Nifty 50 Arbitrage Index

Minimum Inv. Amount
Rs. 5,000 & in multiples of Re. 1/- thereafter
Additional Inv. Amount
Rs. 1,000 & in multiples of Re. 1/- thereafter

Exit Load
- Any redemption / switch-out of units on or before 1 month from the date of allotment: 0.25%
- If units are redeemed or switched out after 1 Month from the date of allotment: NIL

Plans & Options
Regular & Direct Plans
Growth & IDCW^
Monthly & Quarterly
(Payout & Re-investment)
^refer note on slide 5

Fund Managers[2]
For Arbitrage Portfolio
Praveen Ayathan
For Debt Portfolio
Mahesh Chhabria
Mohd. Asif Rizwi

[1]As per clause 1.9 of the SEBI Master Circular dated June 27, 2024, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark effective from 01 December 2021.
[2]Fund Manager -Praveen Ayathan - Effective date 30 Jun 2014. Fund Manager -Mahesh Chhabria - Effective date 15 Jul 2023. Fund Manager - Mohd Asif Rizwi - Effective date - 01 Feb 2025.

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Global Markets

- Global equity markets around the world have been mostly positive this month.
- US CPI for the month of Dec'25 came in at of 0.3% M-o-M, with annual rate at 2.7%. Both were exactly in line with the Dow Jones consensus estimate.
- Core U.S. consumer prices rose less than predicted in Dec'25, reinforcing hopes that inflation is tempering as the Federal Reserve contemplates its move on interest rates.
- Powered by strong consumer spending, the U.S. economy grew at the fastest pace in two years from July through Sep'25 – at 4.4%, up from 3.8% in the April-June quarter and from the 4.3% growth the Commerce Department initially estimated.
- Meanwhile in the UK, inflation rose for the first time in five months to 3.4% in Dec'25, pushed up by higher air fares and tobacco - up from 3.2% in Nov'25. On a monthly basis CPI increased 0.4%.
- Analysts said the reversal of the downward trend was likely only to be temporary, The Bank of England in Dec'25 said that it thinks inflation will ease to around 3% in Q1 2026 and then "closer to 2%" in Q2 2026.

- In the US, all the three major indices are trading positive this month (MTD) - with the NASDAQ having increased the most, by 2.5%.
- US10YR was trading slightly higher as compared to the previous month 4.22 % vs 4.15% (Dec'25).
- US Dollar Index decreased compared to last month: 96.5 vs 98.3 (Dec'25).
- Crude prices increased this month: $65.3/bbl. vs $61/bbl (Dec'25).

The below table indicates the approximate average spread of arbitrage position and does not in any manner indicates any return potential of the scheme. Investors should not consider below as investment advice or recommendation. Past performance may or may not be sustained in future.

Series (Month)	~ Roll Spreads (Annualised)
Jan' 26	6.91%
Dec'25	7.39%
Nov'25	7.10%
Oct'25	7.43%
Sep'25	6.96%
Aug'25	6.31%
July'25	6.92%
June'25	6.59%
May'25	7.23%
Apr '25	6.87%
Mar '25	9.14%
Feb'25	6.78%

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Key triggers for February series

- Union Budget
- RBI Policy
- Remainder of Q3 Earnings
- Updates on Trade Deal

Fund Positioning & Strategy

- The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in schemes of HSBC Mutual Fund, G-Secs/ TBILLs and CP/CD's (including for Margin Placements). The debt portion is actively managed but has a conservative maturity profile and a high quality focus: AAA/Sovereign/A1+ portfolio and no exposure to any low rated Debt Instruments or any Perpetual Bonds as on January 28, 2026.

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Disclaimer & Product Labelling

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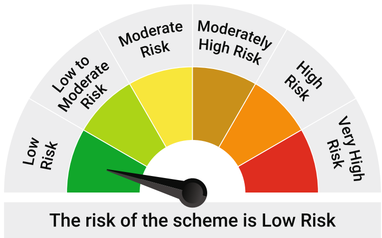


Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.

This product is suitable for investors who are seeking*

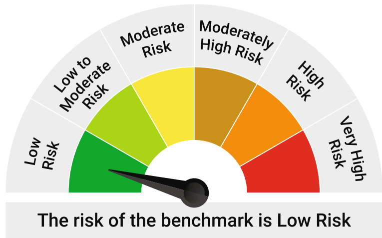
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer is as on 31 December 2025,

Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of the particular Scheme.

Benchmark: Nifty 50 Arbitrage Index



Source: Bloomberg, MOSL & HSBC MF estimates as on December 31, 2025 end or as latest available

^Note: IDCW stands for 'Income Distribution cum Capital Withdrawal option'. The amounts can be distributed out of investors' capital (Equalizati on Reserve), which is part of the sale price that represents realized gains, as may be declared by the Trustees at its discretion from time to time (subject to the availability of distributable surplus as calculated in accordance with the Regulations).

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The details pertaining to Benchmark & Scheme Risk-o-meter is as on 31 December 2025.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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