



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

June 28, 2024



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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 8.93% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of June expiry saw rollover basis to start at 71-72 bps with very low participation as roll levels lowered to 69/70 bps still there wasn't any meaningful increase in participation, once roll levels touched 65-67 bps we saw participation by short rollers and was maintained progressively with low volumes, finally on Wednesday and expiry day we saw rollovers not moving higher and traded lower in a range of 60-63 bps with certain stocks hitting lower at 30-40 bps at the end of expiry. After a long time, we saw roll levels not inching up on expiry day.
- NSE Nifty 50 increased 6.7% in June'24 (MTD), in May'24 the index had declined by 0.52%.
- FIIs have been net buyers this month, purchasing equities to the tune of \$1.8 bn (MTD) as compared to \$3 bn of selling previous month. In the last 3 months FIIs have sold equities close to \$2.3 bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,09,859 crore Vs Rs 2,06,636 crore). This month average roll basis was lower than previous expiry, 68 bps Vs 71 bps previous month.
- Markets were very volatile this month as the benchmark index NSE Nifty 50 made an all-time high on the back of exit-polls, however, the day of election results saw it decline by almost 6% (single biggest day fall in over 4 years), PSUs bore the brunt of the sell-off on 04 June, 2024. Since the results markets have seen a robust rebound as volatility subsides and FII flows return.
- Headline CPI eased to 4.75% in May'24, while core inflation hit another series low (2.97% YoY). However, sequential momentum remained high. Headline inflation is likely to decline due to favourable base effects in the coming months before rising again, but the monsoon progress will be crucial for food price trajectory going ahead. Markets could see some volatility next month owing to budget announcement.

Inception Date

30th June 2014

Benchmark

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

For Arbitrage Portfolio

Praveen Ayathan &
Hitesh Gondhia

For Debt Portfolio

Mahesh Chhabria
Kapil Punjabi

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Global Markets

- Global equity markets have been mixed this month as US stocks have gained while markets in the EU have seen a decline (MTD).
- In the US, CPI for the month of May'24 held flat (3.3% vs 3.4% in Apr'24 & 3.4% est.) The Fed chair acknowledged the CPI print was a welcome improvement but stressed that the committee will need to see more "good data" to move towards rate cuts.
- Meanwhile the Swiss National Bank cut interest rates by 25bps for the second time running. ECB too cut interest rates for the first time since 2019, by 25bps. Inflation in the UK came in at 2% for May'24 Vs 2.3% in Apr'24, returning to its target for the first time since 2021. The fall in UK CPI has been sharper than in the Euro zone or the USA.
- In the US, all the three major indices are trading positive this month - with NASDAQ having increased the most, by 6.7%. US10YR decreased from 4.5% (May'24) to 4.3%. US Dollar Index increased from 104.7 in May'24 to 105.8.
- Crude increased from \$81.6/bbl to \$85.2/bbl. Crude prices retraced from \$85.7/bbl after concerns of higher for longer interest rates resurfaced.

The below table indicates the approximate average spread of arbitrage position and does not in any manner indicate 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)
June '24	8.93%
May'24	9.26%
Apr '24	7.55%
Mar '24	10.19%
Feb '24	8.87%
Jan'24	8.65%
Dec'23	11.26%
Nov'23	8.28%
Oct'23	7.28%
Sept '23	9.11%
Aug '23	9.24%
July '23	7.93%

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Key Triggers for July Series

- Q1FY25 Updates and Results
- Union Budget
- Monsoons
- Global Macros and Markets

Fund Positioning & Strategy

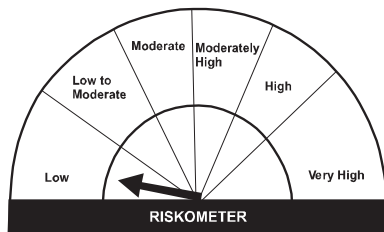
- Currently, allocation towards hedged equities or cash futures arbitrage is at 77.47% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs and Bank FDs (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 June 27, 2024.

Disclaimer & Product Labelling

June 28, 2024

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Investors understand that their principal will be from Low risk

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

This product is suitable for investors who are seeking*

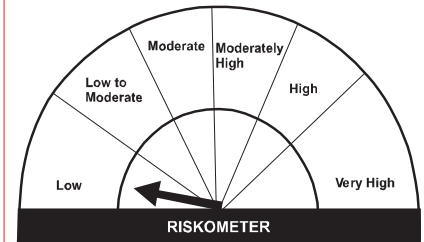
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on May 31, 2024.

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



[^]Note: IDCW stands for 'Income Distribution cum Capital Withdrawal option'. The amounts can be distributed out of investors' capital (Equalized 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 May 31, 2024

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

Source: HSBC Mutual Fund and Bloomberg

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