

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

April 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 10.19% annualized. No duration or credit risk is taken on the debt side, that will pull down the final returns a bit.
- March expiry roll levels began at 77-79 bps with very low participation, as level moved lower 75-76bps participation aggression was seen from short rollers, while on Wednesday levels moved to 76-78bps, and on expiry day levels remained volatile at 70-75bps, for selected stock level narrowed towards the end at 45bps except few stocks like HDFCBANK, levels moved higher at 85-87bps. The roll spreads in many stocks traded above fair levels of 65-75bp.
- Nifty 50 increased 1.6% in Mar'24, in Feb'24 the index had gained 2.95%. FII's were net buyers this month, purchasing equities to the tune of \$3.2bn as compared to \$0.5bn of buying seen the previous month. In the last 3 months, FII's have bought equities close to \$0.6bn. AUM of Arbitrage Funds decreased mildly compared to the previous expiry. This month's average roll basis was higher than the previous expiry, 78bps Vs 68bps the previous month.
- Domestically: CPI inflation for February came in at 5.09% YoY, virtually flat from January (5.10%), and marginally higher than estimated (Consensus: 5.04%). Correction seen this month in Small & Mid-Caps (SMIDs) was catalyzed by stretched valuations and worries on liquidity risk in SMID funds. The HSBC Flash India composite PMI rose to 61.3 in March as compared with 60.6 in Feb indicating a sharp rate of expansion that was the strongest since July 2023. With FII flows coming back and uncertainty over election results fading, markets are poised for healthy growth in the coming months.

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

Mahesh Chhabria

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Global Markets

- Global equity markets increased in Mar'24 – in the US the rally has primarily been driven by the tech names, the semiconductor index is up more than 20% YTD.
- The FED met last week and as expected maintained the status quo on interest rates. Many were expecting ahead of the FOMC, that the Fed Chair would adopt a hawkish tone and dot plot may even shift to suggesting 2 rate cuts (vs 3 earlier).
- However, none of that came true - Dot Plot continues to suggest 3 rate cuts for the year 2024.
- In the race for rate cuts among Central Banks (CB), Swiss National Bank (SNB) led the way, unexpectedly cutting rates by 25bps (vs expectations of an unchanged policy rate).
- SNB is now the first CB among the G10 peers to turn around while Japan's CB raised interest rates from -0.1% to 0.1% for the first time in 17 years.
- All the three major US indices traded positively this month - with the S&P500 increasing the most, by 2.3%. US10YR decreased marginally from 4.25% (Feb'24) to 4.21%. The US Dollar Index increased from 104.1 in Feb'24 to 104.7. Crude increased from \$83.6/bbl. to \$87/bbl.

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)
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%
Jun '23	8.57%
May '23	7.76%
Apr '23	8.54%

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Key triggers for April series

- Q4FY24 Quarterly Updates and results
- RBI Monetary policy outcome
- Lok Sabha Elections
- Global markets
- Central bank commentary

Fund Positioning & Strategy

- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.61% 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 exists.
- The rest is invested in Liquid Fund, G-Secs, T-Bill and CD/CP. 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.

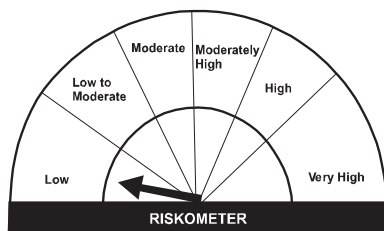
Note: The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).

Disclaimer & Product Labelling

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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*

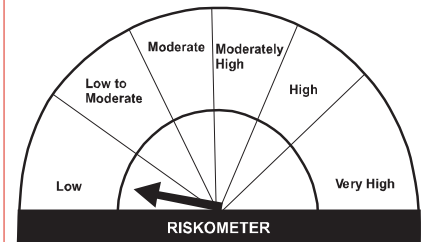
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on March 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).

Source: HSBC Mutual Fund and Bloomberg, Data as on 31 March 2024

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