



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

January 30, 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

- The average roll spreads captured this month was 8.65% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- January expiry roll levels began at 84-86 bps with very low participation as level moved lower 82-84 bps. Participation aggression was seen from short rollers, rolls progressed gradually to 75-80 bps while on expiry day levels remained volatile for selected stock and levels narrowed towards the end at 72-76 bps.
- Equity markets were jittery this month as the banking sector was disappointed with Q3 numbers, also FII flows retracted this month. The Banking index saw its biggest fall in almost 2 years on January 17 – a day after the heavy-weight index HDFC Bank reported its Q3 results.
- Broader markets remained buoyed this month. CPI inflation rose to 5.69% (YoY) in December (expected 5.88%; before 5.55%), largely due to an unfavorable base effect. Sequentially, headline inflation fell (-0.3% MoM) for the first time in four months.
- Investors seem to be sitting on the side-lines as the Interim Budget is due in February – budget commentary coupled with FII flows could give a firm direction to the markets in the future. Nifty decreased around 1.7% in January 2024, after increasing by 8% in the last month of CY2023.
- FIIs turned net sellers this month. FIIs sold equities worth more than \$2.5 bn as compared to \$7 bn of buying seen the previous month. In the last 3 months, FIIs have bought equities worth \$6.7 bn.
- AUM of Arbitrage Funds increased 11,900 cr compared to the previous expiry. This month's average roll basis was lower than the previous expiry, 83 bps vs 87 bps the previous month.

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

(Effective Date: August 01, 2023)

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*

(Managing since

October 01, 2023)

For Debt Portfolio

Mahesh Chhabria

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Global Markets

- Global equity markets increased in January 2024 on the back of strong earnings – especially from the Tech & Semiconductor names. Investors expect the Fed to maintain status-quo at its upcoming meeting on January 31, the Fed had last hiked rates in its July 2023 meeting and has since maintained interest rates at 5.25%-5.5%.
- US CPI for December came at 0.3% (MoM) (vs expectations of 0.2%), taking the headline CPI to 3.4% (vs prior 3.1% and expected 3.2%). Core saw a jump of 0.3% (MoM) (on expected lines). Japan Equities (Nikkei 225) broke out to a new high – scaling levels that it did almost 35 years ago, and only 10% away from its ATH from 1989, benefiting materially from the stock exchange regulations requiring companies to improve shareholder value.
- All three major US indices traded positive this month - with NASDAQ increasing the most, by 3.3%. US10YR increased from 3.9% (Dec'23) to 4.1%. The US Dollar Index increased from 101.3 in Dec'23 to 103.5. Crude increased from \$77/bbl to \$81.5/bbl.

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'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%
Mar '23	8.34%
Feb '23	6.97%

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Key Triggers for February Series

In the immediate future, key events to be watched going forward that may control the Indian markets are

- US Fed meet outcome – Jan 31
- Union Budget (Vote on account)
- RBI Policy – Feb 8
- Q3 Results
- FII Flows
- US Elections
- India General Elections Campaigning for 2024

We continue to believe, investors should stay put in this category, as there may be more opportunities in the volatile markets.

Fund Positioning & Strategy

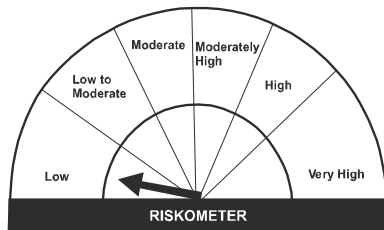
- Currently, allocation towards hedged equities or cash futures arbitrage is at ~66% with a tilt towards Large caps. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities exists.
- The rest is invested in Liquid Fund, G-Secs 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 January 30, 2024

Disclaimer & Product Labelling

January 30, 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*

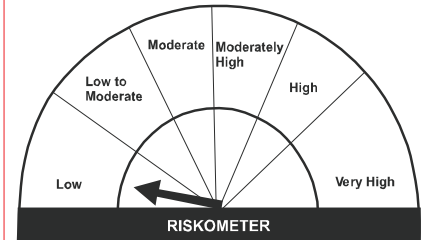
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on December 31, 2023.

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 December 31, 2023

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

Source: HSBC Mutual Fund and Bloomberg

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