



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

August 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 & Overview

- The average roll spreads captured this month was 7.57% annualized. Allocation towards hedged equities is at 76.91 with a tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of August expiry saw rollover basis to start at 64-65 bps going down to 60-61 bps levels with very low participation. Start of the rollover week, roll levels touched 58-59 bps with low volume participation by short rollers. On expiry day rolls dropped to 54-55 bps levels with certain stocks at even lower levels of 43-45 bps. For the third consecutive month, we saw rolls levels remained under pressure all through the expiry period.
- Nifty increased 0.8% in August 2024 (MTD), in July 2024 the index had gained 3.9%.
- Stress and volatility in the global markets due to the unwinding of the carry trade as YEN rose against the USD, pulled down the benchmark index NIFTY50 around 4% at the start of the month. In the second half of the month though markets recovered.
- July CPI inflation at 3.54% YoY (est. 3.60%) was lower than June (5.08% YoY), mainly due to an extremely favorable base effect, with this being reflected in food inflation as well (5.4% YoY vs 9.4% in June 2024). However, on a sequential basis, headline inflation rose 1.4% – the highest increase in a year. Current elevated markets levels warrant caution going into the next series.
- FIIs have been net sellers this month, selling equities to the tune of \$0.5 billion (MTD) as compared to \$3.4 billion of buying previous month. Year to date, FIIs have bought equities close to \$3.2 billion.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,25,961 crores vs Rs 2,22,829 crores). This month average roll basis was lower than previous expiry, 58 bps vs 71.75 bps 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

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

*As per clause 1.9 of the SEBI Master Circular for Mutual Funds no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/74 dated May 19, 2023, 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. Furthermore, the same is effective from 01 December 2021.

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Global Markets

- Global equity markets have been positive this month as the US Fed chairman in his speech said the time has come to cut its key policy rate, making clear his intention to prevent further cooling in the labour market.
- In the US, CPI for the month of July 2024 dropped below 3% (at 2.9%) for the first time in three and a half years, in June 2024 the inflation print read 3% (YoY). The easing inflation and weakening job market led the Fed chair to make a dovish statement.
- In the UK, CPI increased for the first time this year, to 2.2% in July 2024 Vs 2% in June 2024 thereby boosting rate cut expectations, the central bank expects CPI to rise to 2.75% by the end of the year before returning to 2% in the first half of 2026.
- In the US, two out of the three major indices (S&P500 & Dow Jones) are trading positive this month - with S&P500 having increased the most MTD, by 1.3%. US10YR decreased from 4% (July 2024) to 3.8%.
- US Dollar Index decreased from 104.1 in July 2024 to 101.
- Crude decreased from \$80.7/bbl to \$78/bbl, it had declined to as low as \$76/bbl eventually re-bounding on the back of geopolitical risk in the Middle East and a production halt in Libya.

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)
Aug'24	7.57%
July '24	7.48%
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%

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Key Triggers for September Series

- Monsoon Progress/Sowing Data
- US Election Campaign
- FII Flows and Global Macros

Fund Positioning & Strategy

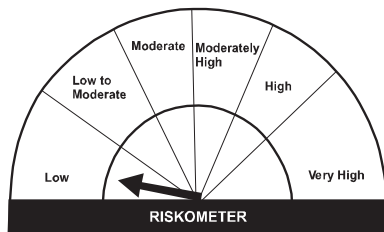
- Currently, allocation towards hedged equities or cash futures arbitrage is at 76.91% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs 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 August 30, 2024.

Disclaimer & Product Labelling

August 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*

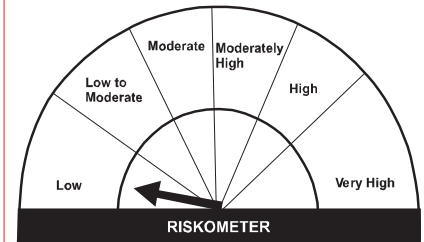
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on July 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



Source: Bloomberg, MOSL & HSBC MF estimates as on August 30, 2024 end or as latest available

[^]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 July 31, 2024

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