

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

April 1, 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 7.39% annualized.
- Allocation towards hedged equities is at 67.21. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- March short rolls started at 62-63 bps, dropping to 55-60 bps levels over the week. Major volumes were generated at this range.
- On expiry day, the roll levels fell below 50 bps levels with many constituents settling at 40-42 bps range.
- NSE NIFTY decreased 11.3% in Mar'26 (MTD) – after decreasing by 0.56% in Feb'26.
- This month to date, FII's have sold equities close to \$13 bn. In Feb'26 FII's bought \$1.7 bn in cash.
- AUM of Arbitrage Funds decreased compared to previous expiry (Rs 3,15,810 crs vs Rs 3,26,599 crs).
- This month average roll basis was lower than previous expiry, 58.75 bps vs 63 bps previous month.

Market Movements (Domestically)

- Markets were very volatile this month.
- FII's sold each day this month. India reported Q3FY26 GDP growth at 7.8% under the new series with base year 2022-23.
- Estimates indicate FY27 GDP growth at ~7.0%, helped by lower effective US tariffs, stable consumption, and improved industrial credit offtake.
- Headline CPI inflation rose to 3.21% in Feb-26 (Prior: 2.73%), with food inflation also picking up mildly (F&B CPI: 3.4% YoY) as favorable base effects fade. However, monthly momentum declined to 0.1% MoM (vs 0.3% prior).
- We continue to track FY27E headline CPI at 4-4.1% in our base-case scenario of USD70/bbl. average Brent crude price (assuming the Iran conflict ends within a month).
- However, an extended conflict would have a severe impact on the macro dynamics. Going into the next month a lot will depend on the way the conflict plays out as India's LPG demand-supply dynamics remain precarious.
- With FII flows now reversing coupled with the positiveness of the trade agreement, market sentiment going into the next expiry seems buoyed.

Inception Date

30th June 2014

Benchmark¹

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 Managers²

For Arbitrage Portfolio

Praveen Ayathan

For Debt Portfolio

Mahesh Chhabria

Mohd. Asif Rizwi

¹As 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.

²Fund 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 bearish this month owing to geo-political tensions.
- The Fed kept its policy rate unchanged at 3.5-3.75% on 18 March, as widely expected, with just a single dissent.
- Given the uncertainty around the Iran crisis, the Fed remains in “wait-and-see” mode, even as the dot plot showed no change, with one cut each continuing to be signaled in 2026 and 2027.
- The central bank reiterated its dual mandate to achieve maximum employment and inflation at 2% over the longer run, adding that uncertainty about the economic outlook remains elevated.
- US CPI increased a seasonally adjusted 0.3% for the month, putting the 12-month inflation rate at 2.4%.
- As per experts, higher oil prices could complicate the inflation outlook in coming months, as increases in gasoline and other energy products often filter through transportation, shipping, and a wide range of consumer goods.
- Meanwhile in the UK, inflation remained at 3% for the year to Feb, in line with forecasts and above the BoE's 2% target.
- In the US, all the 3 three major indices are trading negative this month (MTD) - having decreased close to 7% each.
- US10YR was trading higher as compared to the previous month 4.33 % vs 3.96% (Feb'26).
- US Dollar Index increased compared to last month: 100.5 vs 97.6 (Feb'26).
- Crude prices increased sharply this month: \$106.2/bbl vs \$72.5/bbl (Feb'26). Crude rose as high as \$120/bbl. owing to the conflict.

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)
Mar '26	7.39%
Feb'26	6.77%
Jan' 26	6.91%
Dec'25	8.39%
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%

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Key Triggers for April Series:

- De-escalation of Iran-US war
- Oil and other commodity prices
- RBI policy on 8th April
- Commentary on Rupee
- State Elections
- FII selling trend
- Q4 result updates



Fund Positioning & Strategy

- The fund has exposure in companies where the fund manager believes, dividend arbitrage opportunities can exist.
- 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 April 1, 2026.

Disclaimer & Product Labelling

April 1, 2026

HSBC Arbitrage Fund

<p>HSBC Arbitrage Fund</p>  <p>The risk of the scheme is Low Risk</p>	<p>Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.</p> <p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • 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 <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p>Riskometer is as on 27 Feb 2026,</p> <p>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.</p>	<p>Benchmark: Nifty 50 Arbitrage Index</p>  <p>The risk of the benchmark is Low Risk</p>
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Source: Bloomberg, MOSL & HSBC MF estimates as on 27 Feb 2026 end or as latest available

[^]Note: IDCW stands for 'Income Distribution cum Capital Withdrawal option'. The amounts can be distributed out of investors' capital (Equalization 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 27 Feb 2026.

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