



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

April 25, 2025



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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 6.87% annualized. Allocation towards hedged equities is at 74.09 with tilt towards large cap.
- No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The NSE NIFTY gained 6.6% in March 2025 (MTD) – after declining by 5.9% in February 2025.
- At the outset of the month, rollover basis was levelled at 66-67 bps. The levels were maintained at the beginning of rollover week with short roller interest at 65-66 levels at good volumes except for some stocks which showed low participation levels. On expiry day, roll levels dropped to 59-60 levels with no effect on volume levels.
- The NSE NIFTY gained 3.1% in April 2025 (MTD) – after increasing by 6.3% in March 2025.
- This month to date, net equity FII flows have been negative, to the tune of \$1.3 bn, FIIs started buying equities from the second half of the month. In March 2025 FIIs bought \$900 mn in cash.
- AUM of Arbitrage Funds marginally increased compared to previous expiry (Rs 2,56,667 cr vs Rs 2,42,888 cr). This month average roll basis was lower than previous expiry, 66 bps vs 70 bps previous month.

Market Movements

- Markets rebounded sharply post the first week of the month on the back of FII flows.
- This month, expectedly, the RBI delivered 25 bps cut unanimously, along with a stance change to 'accommodative' to give directional easing bias.
- With the extent of the trade/tariff uncertainty being difficult to fathom at present, 25-50 bps of rate cut apart from the already priced in 25 bps in June 2025 cannot be ruled out.
- Headline CPI inflation fell to 3.34% YoY in March (Consensus: 3.5%; Prior: 3.61%) – the lowest in over five years. This was primarily driven by continued sequential easing in food prices. Sequentially, CPI declined for the fifth consecutive month (-0.3% MoM vs -0.5% prior), as food inflation dropped 0.9% MoM (vs -2% prior).

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

Mohd. Asif Rizwi

(Effective 01 Feb 2025)

*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 around the world have been bearish this month.
- In the US, Fed policymakers expected inflation to be pushed higher this year due to the impact of elevated tariffs, minutes from the last FOMC meeting in March 2025 showed - although the Trump administration is leaning towards interest rate cuts, currently the interest rate stands at 4.5%.
- CPI fell a seasonally adjusted 0.1% in March, putting the 12-month inflation rate at 2.4%, down from 2.8% in February.
- In the UK inflation dropped to 2.6% in March 2025, increasing the pressure on Bank of England policymakers to cut interest rates next month. In February 2025 the CPI fell to 2.8% down from 3% in January 2025.
- In the US, all the three major indices are trading negative this month (MTD) - with DOW having decreased the most, by 4.5%.
- US10YR was slightly higher as compared to the previous month 4.3% Vs 4.2% (March 2025).
- US Dollar Index decreased from 104.2 in March 2025 to 99.4.
- Crude price saw a sharp decline compared to last month \$66.4/bbl vs \$74.7/bbl (March 2025)

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)
Apr '25	6.87%
Mar '25	9.14%
Feb'25	6.78%
Jan' 25	7.73%
Dec' 24	7.63%
Nov'24	7.46%
Oct'24	8.22%
Sep'24	7.12%
Aug'24	7.57%
July '24	7.48%
June '24	8.93%
May'24	9.26%

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Key Triggers for May Series:

- Trump Tariff Plans
- Quarterly Results
- Global and Geopolitical Developments
- US FOMC Meet Outcome: May 7, 2025

Fund Positioning & Strategy

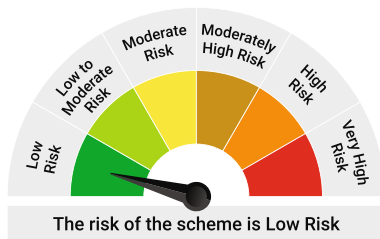
- The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in schemes of HSBC Mutual Fund, G-Secs/ TBILLs and CP/CD's (including for Margin Placements). The debt portion is actively managed 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 25, 2025.

Disclaimer & Product Labelling

April 25, 2025

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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, 2025.

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 April 25, 2025 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 March 31, 2025.

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