



HSBC Mutual Fund

# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

August 29, 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 6.31% annualized. Allocation towards hedged equities is at 69.53 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.
- Rolls started at a decent 59-60 bps levels providing good churn volumes. Later part of the week prior to rollover week, the spreads were maintained at 56-58 bps and continued to the start of rollover week. By the end of rollover, levels dropped to 50-52bps levels owing to tariff news and festival holiday, but volumes were healthy.
- NIFTY declined 1% in Aug'25 (MTD) – after declining by 2.9% in July'25. This month to date, FIIs have sold equities close to \$2.5bn. In Jul'25 FIIs sold \$2.8bn in cash. AUM of arb funds marginally increased compared to previous expiry (Rs 310599 Crs Vs Rs 304116 Crs). This month average roll basis was higher than previous expiry, 57bps Vs 53bps previous month

## Market Movements

- The big news this month was the impending simplification in the GST, that PM Modi in his Independence speech alluded to – 12% and 28% categories may be slashed, and majority of the items may fall in the 5% and 18% category respectively, with “sin” goods likely commanding much higher rates (probably 40%).
- Headline CPI inflation fell to a 97-month low of 1.55% in Jul-2025 (prior: 2.1%). In line with consensus, the RBI decided to keep the policy repo rate unchanged at 5.5%, with unanimous votes. Despite sharply lowering its FY26 inflation forecast by 60bps to 3.1%, the decision to leave rates unchanged emanated from: 1) inflation likely edging up above 4% in Q4FY26, with core staying steady, 2) the growth outlook largely remaining unchanged amid evolving global order, and 3) the still-unfolding policy transmission of the last 100bps cut amid sufficient liquidity

### Inception Date

30th June 2014

### Benchmark<sup>1</sup>

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<sup>^</sup>

Monthly & Quarterly

(Payout & Re-investment)

<sup>^</sup>refer note on slide 5

### Fund Managers

#### For Arbitrage Portfolio

Praveen Ayathan &

#### For Debt Portfolio

Mahesh Chhabria

Mohd. Asif Rizwi

<sup>1</sup>As 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.

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## Global Markets

- Global equity markets around the world have been mostly positive this month. In the US CPI rose 0.2% last month after gaining 0.3% in June, In the 12 months through July, the CPI advanced 2.7% while experts were expecting 2.8%. In the Jackson Hole meet Powell struck a cautious, data-dependent tone. He nodded to softer labor, flagged the balance of risks, and effectively set up September for a cut. The U.K.'s annual inflation rate hit a hotter-than-expected 3.8% in July. Economists polled by Reuters had anticipated inflation would reach 3.7% in the twelve months to July, after it picked up to 3.6% in June, exceeding forecasts. EU annual inflation rate was 2.0% in July 2025, stable compared to June. A year earlier, the rate was 2.6%. Word on the street is that the European Central Bank is likely to keep interest rates on hold next month but discussions about further cuts may well resume in the autumn if the economy weakens.
- In the US, all the three major indices are trading positive this month (MTD) - with Dow Jones having increased the most, by 3.2%. US10YR was slightly lower as compared to the previous month 4.2% Vs 4.36% (Jul'25). US Dollar Index declined compared to last month: 98 Vs 100 (Jul'25). Crude prices fell this month: \$67.5/bbl. Vs \$72.5/bbl. (July'25)

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) |
|----------------|-----------------------------|
| Aug'25         | 6.31%                       |
| July'25        | 6.92%                       |
| June'25        | 6.59%                       |
| May'25         | 7.23%                       |
| 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%                       |



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## Key Triggers for September Series:

- GST rate rationalization
- India Us trade talks
- US FOMC meet outcome on Sep17th
- Pre festive buying and Impact of heavy rains

## 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 August 29, 2025.

# Disclaimer & Product Labelling

August 29, 2025

## HSBC Arbitrage Fund

HSBC Arbitrage Fund



**Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.**

**This product is suitable for investors who are seeking\***

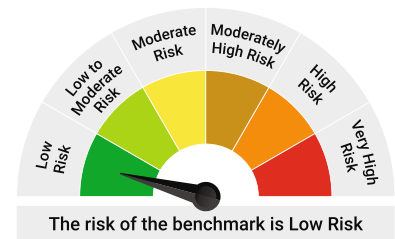
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on July 31, 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 August 29, 2025 end or as latest available

<sup>^</sup>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, 2025.

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