

# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

December 30, 2024



# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

December 30, 2024

## 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 7.63% annualized. Allocation towards hedged equities is at 78.2 with tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- At the onset of December expiry rollover basis were levelled at 74-75 bps with minimal participation, further lowering to 70-72 bps. Start of the rollover week, we saw short roller interest at 69-70 levels and was maintained progressively with decent volumes. Finally on expiry day with no improvement in roll levels or volumes, rolls traded in a range of 65-68 bps with certain stocks hitting lower at 60-62 bps.
- The Nifty 50 index decreased 1.6% in December 2024 (MTD) after declining by 0.3% in November 2024. Third consecutive month of negative returns.
- This month, FII's have been net buyers of equities - after two months of selling. This month FII's have purchased equities to the tune of \$2.5 bn. This month average roll basis was higher than previous expiry, 73 bps vs 57 bps previous month.
- Markets were buoyant in the first half of the month; however, the third week of the month saw the Nifty 50 decline by 4.8% - steepest weekly loss since June'22, erasing most of the gains. Spillover from US markets & the continued sell-off by FII's contributed to the downturn.
- In the RBI's MPC meeting, the Repo rate was left unchanged at 6.50%. The decision was not a consensus one, as some sections of the market were expecting a rate cut; even within the MPC there were two dissenting voices. The spike in the last inflation and upside risks to inflation over the near term were given prominence over growth concerns.
- CPI inflation dipped to 5.48% YoY in November (est.: 5.50%; prior: 6.21%). Investors are cautious - keen to see how president elect Trump handles trade policy with respect to other countries (especially China) post his swearing in.

### 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<sup>^</sup>

Monthly & Quarterly

(Payout & Re-investment)

<sup>^</sup>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.

# HSBC Arbitrage Fund

December 30, 2024

## Global Markets

- Global equity markets around the world have shown mixed sentiments, this month. In the US, the FED cut its policy rate by 25 bps, as expected, bringing down the Fed funds rate to 4.25-4.5%. However, this was a hawkish cut, with the dot plot indicating only two cuts in 2025 as against expectations of four. The hawkish outlook led to a sharp market reaction: UST2Y and UST10Y yields both spiked by 10-11 bps, whereas S&P tanked 3% and DXY rose ~1.2%.
- US CPI rose by 0.3% in November 2024 – the most in seven months, YoY it rose by 2.7% Vs 2.6% in October 2024. Progress in lowering inflation toward the US Central Bank's 2% target has virtually stalled.
- In the UK, CPI rose to 2.6% (YoY) in November 2024 – rising second month in a row to the highest level in eight months while the central bank held interest rates at 4.75% as it downgraded growth forecast and warned of stagflation risk.
- In the US, two out of the three major indices are trading positive this month (MTD) - with NASDAQ having increased the most, by 4.2%. US10YR increased from 4.18% (November 2024) to 4.6%. US Dollar Index increased from 105.7 in November 2024 to 108.1.
- Crude increased since last month: (Nov \$72.9/bbl to \$73/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)
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%
Apr '24	7.55%
Mar '24	10.19%
Feb '24	8.87%
Jan'24	8.65%

# HSBC Arbitrage Fund

December 30, 2024

## Key Triggers for December Series:

- Geopolitics and Global News
- Low Global Liquidity due to Holiday Season
- Change in US Government

## Fund Positioning & Strategy

- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.2% 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 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 December 27, 2024.

# Disclaimer & Product Labelling

December 30, 2024

## 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 November 30, 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 December 27, 2024 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).

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only with an intent to provide market overview and should not be construed as an offer or solicitation of an offer for purchase of any of the funds of HSBC Mutual Fund. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed or recommended in this report and should understand that the views regarding future prospects may or may not be realized. Neither this document nor the units of HSBC Mutual Fund have been registered in any jurisdiction.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

The above information is for illustrative purposes only. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).

Investors are requested to note that as per SEBI (Mutual Funds) Regulations, 1996 and guidelines issued thereunder, HSBC AMC, its employees and/or empaneled distributors/agents are forbidden from guaranteeing/promising/assuring/predicting any returns or future performances of the schemes of HSBC Mutual Fund. Hence please do not rely upon any such statements/commitments. If you come across any such practices, please register a complaint via email at [investor.line@mutualfunds.hsbc.co.in](mailto:investor.line@mutualfunds.hsbc.co.in)

The details pertaining to Benchmark & Scheme Risk-o-meter is as on November 30, 2024.

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