



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

February 28, 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 6.78% annualized. Allocation towards hedged equities is at 75.27%. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- February expiry rollover saw a very low participation. Start of the expiry period, the levels were at 60-62 bps which quickly fell to 58-60 bps due to low activity. During the rollover week, we saw short roller interest at 54-56 bps but no meaningful uptick in volumes. On expiry day, rolls traded at an average of 50-52 bps with some stocks falling lower in 46-48 bps levels.
- The NSE NIFTY lost 4.10% in February 2025 (MTD) – after declining by 0.6% in January 2025.
- This month too, FIIs have been net sellers of equities – previous month FIIs sold \$8.4 bn in the cash. This month FIIs have sold equities to the tune of \$3.8 bn.
- AUM of Arbitrage Funds increased compared to previous expiry (Rs 245,829 crs vs Rs 240,755 crs). This month average roll basis was lower than previous expiry, 52 bps vs 59 bps previous month.

Market Movements

- Markets continued to remain bearish in February as well although the pace of FII selling has reduced since last month.
- RBI cut interest rates by 25 bps in February 2025 to 6.25% - first rate cut in nearly five years; the next meeting is scheduled for April 2025. Participants estimate RBI may implement further rate cuts totaling up to 75 basis points throughout 2025, especially if inflation continues its downward trend and economic growth remains subdued.
- CPI inflation dipped to a five-month low of 4.31% (YoY) in January (Consensus: 4.50%; prior: 5.22%), primarily driven by continued sequential easing in food prices. Sequentially, CPI inflation fell for the third consecutive month.
- with budget out of the way and global uncertainties with respect to tariff wars cooling down the markets are soon approaching oversold zone. Coupled with the Dollar Index coming off from its highs in Jan 2025, FIIs will likely return to investing in India in the near-term

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 mixed this month.
- In the US, the FOMC is unlikely to change interest rates in its meeting to be held in March 2025 based off the robust job market - which continues to show momentum and higher inflation - which came in at 3% for Jan 2025 marking the largest increase since June 2024, this contrasts with the 2% target set by the FED.
- In the UK, the BOE reduced interest rates by 25 bps to 4.5%, third cut since Aug 2024 while inflation print came in at 3% (for January 2025), although far below the peak of 11.1% in October 2022, it remains above the target of 2%.
- The ECB too cut interest rates by 25bps in Feb 2025 and kept more easing on the table sticking to its view that inflation in the euro zone is increasingly under control.
- In the US, all the three major indices are trading negative this month (MTD) - with NASDAQ having decreased the most, by 4.32%.
- US10YR was lower as compared to the previous month 4.2% vs 4.5 (January 2025).
- US Dollar Index decreased from 108.4 in January 2025 to 107.
- Crude decreased since last month: (\$76.7/bbl to \$73.1/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)
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%
Apr '24	7.55%
Mar '24	10.19%

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Key Triggers for March Series:

- FII Flows
- High frequency domestic data to measure economic recovery
- US Fed meet outcome on March 19
- Geopolitical news & Global developments

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 February 28, 2025.

Disclaimer & Product Labelling

February 28, 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 January 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 January 31, 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 January 31, 2025.

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