

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

February 25, 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 6.77% annualized.
- Allocation towards hedged equities is at 71.05. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- February short rolls started at 67-68 bps prior to the expiry week, and the levels dropped gradually by 1-2 bps to 63-64 bps on subsequent days.
- On expiry day, the roll levels dropped to 60 bps and below for most constituents, barring some which moved up to 68-69 levels.
- Technology stocks were hit severely, as the long rollers shied away.
- NSE NIFTY increased 0.4% in Feb'26 (MTD) – after decreasing by 3% in January 2026.
- This month to date, FII have bought equities close to \$1.6 bn. In Jan'26 FIIs sold \$3.2 bn in cash.
- AUM of Arbitrage Funds increased compared to previous expiry (Rs 334,803 crs vs Rs 334,342 crs).
- This month average roll basis was higher than previous expiry, 63 bps vs 53 bps previous month.

Market Movements (Domestically)

- The RBI, as expected, paused rate cuts in the Feb-26 MPC, with a neutral stance and a balanced tone.
- However, RBI Governor hinted in the press conference that barring any surprises, policymakers are comfortable with the current policy rate and stance for the foreseeable future, based on their macro assessment.
- Jan-26 CPI (new base) printed 2.74% YoY with food inflation at 2.1% and core easing to 3.4%.
- Markets saw a sharp selloff during the Budget session, with the Nifty closing 2% down. While there was an attempt to bounce, but it clearly lacked follow-through and faded quickly. The big negative surprise was the hike in STT in the F&O segment.
- India and the US reached a trade agreement on 2nd Feb that cut tariffs on Indian goods to 18% from 25%. Following the US court ruling this has come down to 15%.
- 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 mixed this month.
- The FED held its key interest steady in a range between 3.5% and 3.75% on 28 January. The decision put a halt to three consecutive quarter percentage point reductions.
- Headline CPI in the US for the month of Jan'26 was softer at 0.2% m/m (Est: 0.3%) and was up 2.4% y/y (Est: 2.5%). Soft headline CPI for Jan-26 has led to the market beginning to price in a lower Fed terminal rate.
- Meanwhile in the UK, the annual U.K. inflation rate fell sharply in January, increasing the chances that the Bank of England will decide to cut interest rates at its next policy meeting in March.
- Annual CPI rose 3.0% in January, the lowest level since March 2025, dropping from 3.4% the prior month.
- Although the headline figure remains above the BoE's 2% target, at its meeting in Feb the central bank policymakers indicated that further rate cuts are likely later this year as inflation is projected to return to the 2% target by spring, at a faster rate than previously forecast.
- In the US, 2 of the 3 three major indices are trading negative this month (MTD) - with the NASDAQ having decreased the most, by 2.5%.
- US10YR was trading slightly lower as compared to the previous month 4.04% Vs 4.24% (Jan'26).
- US Dollar Index increased compared to last month: 97.8 Vs 97 (Jan'26).
- Crude prices increased this month: \$71.1/bbl. Vs \$70.7/bbl. (Jan'26).

The below table indicates the approximate average spread of arbitrage position and does not in any manner indicate 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'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%
Mar '25	9.14%

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Key Triggers for March Series:

- Trump Policy
- Tariffs
- Global Conflicts Russia-Ukraine, US-Iran
- Gaza-Board of Peace
- AI Disruptions
- Gold/Silver/Commodities Volatility

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 February 25, 2026.

Disclaimer & Product Labelling

February 25, 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>Benchmark: Nifty 50 Arbitrage Index</p>  <p>The risk of the benchmark is Low Risk</p>
<p>Riskometer is as on 31 January 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>		

Source: Bloomberg, MOSL & HSBC MF estimates as on 31 January 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 31 January 2026.

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