



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

March 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 9.14% annualized. Allocation towards hedged equities is at 75.5 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.
- March expiry started with rollover levels at 66-67 bps at lower volumes leading to levels falling to 64-65 bps. The rollover week started with short roller interest at 70-72 levels again at lower volumes and expanded to up to 74-76 levels for some stock participation levels. On expiry day, since there was no visible improvement in roll levels or volumes, rolls traded in a range of 68-70 bps with certain stocks hitting lower at 62-64 bps. Roll levels were also affected by regulator issuing circular for change in expiry day and subsequently deferring the same.
- The NSE NIFTY gained 6.6% in March 2025 (MTD) – after declining by 5.9% in February 2025.
- This month, FII's have turned net buyers of equities, purchasing to the tune of \$1.3 bn. Previous month FII's sold \$5.3 bn in the cash.
- AUM of Arbitrage Funds decreased compared to previous expiry (Rs 2,41,718 crs vs Rs 2,45,841 crs). This month average roll basis was higher than previous expiry, 70 bps vs 54 bps previous month.

Market Movements

- Markets rebounded sharply, especially from the second half of the month as FII's pumped in funds since last month.
- Headline CPI inflation fell to a seven-month low of 3.61% YoY in February (Consensus: 3.98%; Prior: 4.26%), primarily driven by continued sequential easing in food prices. Sequentially, CPI declined for the fourth consecutive month (-0.5% MoM vs -1% prior).
- The RBI had projected CPI inflation for FY 2024-25 at 4.8%, with the January-March quarter (Q4FY25) estimate at 4.4%. However, with inflation falling below 4%, analysts suggest that the central bank may consider further easing its monetary stance to support economic growth.
- The RBI's next bi-monthly policy meeting in April 2025 will be closely watched. With the dollar index coming down and FII flows coming backs, the positive sentiment is likely to persist going into the next month. Rate cut could also act as a catalyst driving up the momentum.

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 unanimously voted to hold interest rates steady at 4.5% for a second straight meeting, following three consecutive rate reductions that began last September. Officials said they still see another half percentage point of rate cuts through 2025.
- CPI came in at 0.2% in February 2025, (slightly below expectations). On an annual basis, headline inflation was at 2.8%. The print provided some relief as consumers and businesses worry about the looming impact tariffs might have on inflation.
- In the UK, the BOE left interest rates unchanged, keeping the central bank's benchmark rate at 4.5%. The decision had been widely anticipated by markets
- In the US, all the three major indices are trading negative this month (MTD) - with NASDAQ having decreased the most, by 4.8%.
- US10YR was slightly higher as compared to the previous month 4.3% Vs 4.2 (February 2025).
- US Dollar Index decreased from 107.6 in February 2025 to 104.3.
- Crude price remained in line since last month: (\$73.2/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)
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%
Apr '24	7.55%

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Key Triggers for April Series:

- Trump Tariff Plans
- RBI Outcome - 9th April 2025
- Q4FY26 Results
- Global and Geopolitical 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 March 28, 2025.

Disclaimer & Product Labelling

March 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 February 28, 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 March 28, 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 February 28, 2025.

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