

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

May 30, 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 7.23% annualized.
- Allocation towards hedged equities is at 71.03 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.
- Rollover initiated at 59-60 bps levels and were maintained for most of the week with good participation.
- On expiry day, roll levels dropped to 52-53 levels with no effect on volume levels while some selective stocks showing an uptick at 62-64 bps.
- The NSE NIFTY gained 2.1% in May 2025 (MTD) – after increasing by 5.05% in April 2025.
- This month to date, net equity FII flows have been positive (third consecutive month of inflows), to the tune of \$2.5 bn. In April 2025, FIIs bought \$1.3 bn in cash.
- AUM of Arbitrage Funds increased compared to previous expiry (Rs 2,75,492 crs vs Rs 2,57,541 crs). This month average roll basis was lower than previous expiry, 55.44 bps Vs 65.86 bps previous month.

Market Movements

- Markets were volatile this month having traded in the range of 1,000 pts and touching the 25000 mark.
- The RBI has announced a record dividend of Rs 2.68 trn to the Centre for FY25, which is around 28% higher than the ~Rs 2.1 trn assumed in the FY26 Union Budget. This marks the third consecutive year where the actual dividend has exceeded the initial budgeted number, albeit the surprise is modest.
- Headline CPI inflation fell to 3.16% (YoY) in March (Consensus: 3.2%; Prior: 3.34%) – a 69-month low. Continued sequential easing in food prices was the primary driver for this soft print (-0.2% MoM).
- Markets gaining for the third consecutive month warrants caution in the month going forward as investors could book some profits.

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 Managers

For Arbitrage Portfolio

Praveen Ayathan &

Hitesh Gondhia

For Debt Portfolio

Mahesh Chhabria

Mohd. Asif Rizwi

(Effective 01 Feb 2025)

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.

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Global Markets

- Global equity markets around the world have been bullish this month.
- Policymakers in the US voted unanimously to keep their benchmark rate unchanged, at a target of 4.25% to 4.5%, while saying in their statement that “uncertainty about the economic outlook has increased further”.
- April's headline and core (ex-food and energy) CPI measures came in at 0.2% month-over-month, slightly below the 0.3% estimate. Year-over-year inflation showed signs of cooling (2.3% vs 2.4% estimate), reaching its lowest level since early 2021, suggesting a potential easing of near-term inflationary pressures.
- In the UK, an expected cut from the Bank of England came with a more hawkish-than-anticipated commentary, it was a little over-shadowed by the well-telegraphed announcement of a UK trade deal with the US.
- In the US, all the three major indices are trading positive this month (MTD) - with NASDAQ having increased the most.
- US10YR was slightly higher as compared to the previous month 4.4% vs 4.2% (April 2025).
- US Dollar Index was in line compared to last month: 99.5 in April 2025 vs to 99.4 as on today.
- Crude price saw an uptick compared to last month \$63.4/bbl. Vs \$63.1/bbl (April 2025).

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)
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%
Aug'24	7.57%
July '24	7.48%
June '24	8.93%

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Key triggers for June series:

- RBI policy outcome - June 6, 2025
- Tariff updates
- Spread of monsoon
- Other global updates

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 May 30, 2025.

Disclaimer & Product Labelling

May 30, 2025

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>Riskometer is as on April 30, 2025.</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>	<p>Benchmark: Nifty 50 Arbitrage Index</p>  <p>The risk of the scheme is Low Risk</p>
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Source: Bloomberg, MOSL & HSBC MF estimates as on May 30, 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 (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 April 30, 2025.

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