



HSBC Mutual Fund

# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

November 29, 2024



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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 7.46% annualized. Allocation towards hedged equities is at 77.84 with tilt towards Midcap. No duration or credit risk is taken on the debt side, that will pull down the final returns a bit.
- At the start of November, rollover basis was initially at 60-62 bps with low participation and didn't see any increase in activity; lowering to 58-60 bps levels. Once the levels breached 54-55 bps during the beginning of the week, we saw some short roller participation albeit at low volumes: continuing through the week at 55-58 bps levels with some stocks hitting lower at 45-48 bps.
- NIFTY50 index decreased 1.2% in November 2024 (MTD) after declining by 6.2% in October 2024.
- The pace of FII selling this month has decreased after more than \$11 bn of selling witnessed in October 2024. This month FIIs have sold to the tune of \$1.5 bn. Year to date, FIIs have sold equities close to \$1 bn.
- This month average roll basis was lower than previous expiry, 57 bps vs 63 bps previous month.

## Market Actions & Overview

- Markets saw a sharp reversal from the third week of the month – driven by the exit polls and eventual return of the incumbent in Maharashtra Elections. The ADANI saga did weigh down on the markets, however, towards the end of the month most of the stocks from the pack started trading in the green.
- CPI inflation rose to a 14-month high of 6.21% YoY in October (Consensus: 5.90%; prior: 5.49%), primarily driven by higher food (10.9% YoY) and gold prices, as well as an uptick in core inflation.
- Although the recent correction seems to be coming to an end, a strong dollar could limit FII inflows, also poor earnings season marked by weak consumption demand could cap the bullish sentiment in the markets going into the next month.

### 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

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.

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## Global Markets

- Global equity markets have been mixed this month with the European markets trading negative while US stocks trading with gains.
- Donald Trump winning the US elections also helped drive the positive sentiment, also the FED cut interest rates by 25 bps on Nov 7 – however, multiple FED speakers said that future rate cut actions may be slowing down given the strength of the economy. FED fund futures are currently projecting 52% probability of a rate cut in December and only 3 rate cuts till the end of CY25.
- US CPI rose from 2.4% in September 2024 to 2.6% in October 2024, core CPI rose to a three-month high to 3.3% in October 2024.
- In the UK, CPI rose to 2.3% (YoY) in Oct'24 reversing the downtrend seen in September 2024 (1.7%) – thereby heaping pressure on the central bank to delay further interest rate cuts.
- In the US, all the three major indices are trading positive this month (MTD) - with DOW having increased the most, by 7.1%. US10YR decreased marginally from 4.28% (October 2024) to 4.24%. US Dollar Index increased from 104 in October 2024 to 106.
- Crude decreased from \$72.8/bbl to \$72.3/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)
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%
Dec'23	11.26%



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## Key Triggers for December Series:

- 45 new stocks in F&O
- RBI Policy Outcome on December 6, 2024
- Geo Politics and Global News
- Low Global Liquidity due to Holiday season

## Fund Positioning & Strategy

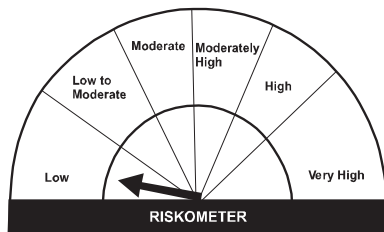
- Currently, allocation towards hedged equities or cash futures arbitrage is at 77.84% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in schemes of HSBC 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 November 29, 2024.

# Disclaimer & Product Labelling

November 29, 2024

## HSBC Arbitrage Fund

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Investors understand that their principal will be from Low risk

**Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.**

**This product is suitable for investors who are seeking\***

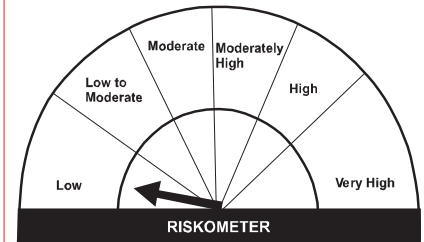
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer is as on October 31, 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 November 29, 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).

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The details pertaining to Benchmark & Scheme Risk-o-meter is as on October 31, 2024.

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