



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

November 05, 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 8.22% annualized. Allocation towards hedged equities is at 75.08 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.
- The start of October expiry saw rollover basis to start at 67-68 bps with very low participation followed by a decline to 65-66 bps levels. At the beginning of expiry week, we saw participation by short rollers at 63-64 bps, although with low volumes. Last two days of expiry week we saw rolls trading lower in a range of 60-61 bps with certain stocks falling to 52-54 bps levels, and even on expiry day roll levels did not inch up.
- Nifty 50 index decreased 6.2% in October 2024 after reaching all-time high in September 2024.
- FIIs heavily sold this month, more than \$10 bn – highest ever monthly selling, as compared to \$6 bn of buying seen previous month. Year to date, FIIs have sold equities close to \$0.4 bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,34,036 crs vs Rs 2,25,789 crs). This month average roll basis was lower than previous expiry, 63 bps Vs 68 bps previous month.

Market Movements

- Markets saw a sharp decline this month due to FIIs pulling out funds in record quantum coupled with weaker corporate results for the second quarter.
- FII selling can be attributed to two factors:
 - 1) Profit booking after markets reached all-time high in September 2024; and
 - 2) Funds flowing from India to China in the wake of a significant rise in Chinese markets.
- Among the major global market indices, India has emerged as the biggest loser over the last one month.
- CPI inflation rose to a nine-month high of 5.49% YoY in September 2024 (Consensus: 5.10%; Prior: 3.65%), primarily driven by higher food (9.2% YoY) and gold prices, as well as the fading favorable base effect.
- Investors will remain cautious going into the next month. There is growing expectation that RBI will go in for a rate cut in either December 2024 or February 2025.

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

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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. US Bond yields reached a three-month high in the second half of the month owing to uncertainty around the presidential elections and further rate cuts. Markets are pricing in ~25bps of easing by the end of 2024.
- For the sixth consecutive month, the US annual inflation rate fell, from 2.5% in August to 2.4% in September 2024 — the lowest level since February 2021 — while still exceeding 2.3% of projections.
- In the UK, CPI declined sharply to 1.7% (YoY) in September from 2.2% in August 2024 bolstering bets of a November 2024 rate cut from current 5%. The current inflation print is the lowest since April 2021 – investors are now putting a 90% chance on two 25 bps rate cuts by the end of this year, up from a roughly 80%.
- In the US, two of the three major indices are trading positive this month - with NASDAQ having increased the most, by 2.4%. US10YR increased from 3.8% (September 2024) to 4.3%. US Dollar Index increased from 100.8 in September 2024 to 104.
- Crude increased from \$71.7/bbl to \$72.3/bbl, it had risen to as high as \$79.7/bbl on the back of geo-political tensions.

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)
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%
Nov'23	8.28%



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Key Triggers for November Series

- US Elections
- Maharashtra Elections
- US Fed Meet Outcome
- Remaining of Q2 Earnings

Fund Positioning & Strategy

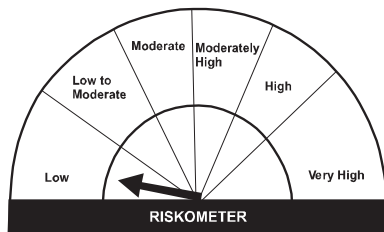
- Currently, allocation towards hedged equities or cash futures arbitrage is at 75.08% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in schemes of HSBC 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 October 31, 2024.

Disclaimer & Product Labelling

November 05, 2024

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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*

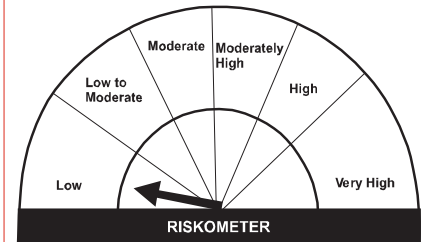
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

*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 October 31, 2024 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 October 31, 2024.

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