



HSBC Mutual Fund

# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

September 27, 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 7.12% annualized. Allocation towards hedged equities is at 78.16 with a 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 September expiry saw rollover basis to start at 74-76 bps with very low participation followed by a decline to 68-70 bps levels. Beginning of expiry week, we saw participation by short rollers at 66-67 bps, although with low volumes. Last two days of expiry week we saw rolls trading lower in a range of 66-68 bps; with certain stocks falling to 60-62 bps levels. This is the fourth consecutive month we saw rolls continuing under pressure and even on expiry day roll levels did not rise.
- Nifty 50 increased 3.9% in September 24 (MTD) breaching the 26,000 mark for the first time, in August 2024 the index had gained 1.1%.
- Markets were positive this month as FIIs pumped in money, first half of the month saw the benchmark index rise by just 50 bps, however, in the second half the index rose by 3.4% (MTD). India has emerged as the largest emerging market in MSCI EM Investable Market Index (IMI), outpacing China.
- August CPI Inflation at 3.65% YoY (Consensus: 3.47%) was marginally higher than July (3.54% YoY), mainly due to food inflation being higher than expected (5.3% YoY). However, on a sequential basis, headline inflation was flat – the lowest sequential reading since March. Although the markets seem elevated, the upcoming earnings could clear out the haze going forward.
- FIIs have been net buyers this month as well, purchasing equities to the tune of \$5.7 bn (MTD) as compared to \$1.4 bn of buying previous month. Year to date FIIs have bought equities close to \$10.7 bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,30,117 crores vs Rs 2,21,867 crores). This month average roll basis was higher than the previous expiry, 68 bps vs 58 bps previous 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<sup>^</sup>

Monthly & Quarterly

(Payout & Re-investment)

<sup>^</sup>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 slightly negative while US stocks trading with gains (MTD).
- The US Fed cut interest rates by 50 bps, the first in four years, signalling two more rate cuts of 25 bps each this year. Markets are pricing in ~60 bps of easing for 2024 and ~150 bps for 2025 – significantly more than the Fed's projections on the back of the current slowdown (as evident through recent labor data).
- In the US, CPI for the month of August 2024 rose by 0.2% in line with forecasts. YoY basis CPI stood at 2.5% (Vs est. 2.6% & 2.9% in July 2024).
- In the UK, CPI rose 2.2% (YoY) in August, on an MoM basis CPI increased by 0.3% - as expected. Also, Bank of England kept rates unchanged at 5% although economists expect another cut (to 4.75%) at the next meeting on 07 November this year. In August, the Bank of England had cut interest rates by 25 bps, from 5.25% to 5%.
- In the US, all three major indices are trading positive this month - with NASDAQ having increased the most MTD, by 2.7%.
- US10YR decreased from 3.9% (August 2024) to 3.8%. US Dollar Index decreased from 101.7 in August 2024 to 100.7.
- Crude decreased from \$78.8/bbl. to \$70.7/bbl, it had declined below \$70/bbl eventually re-bounding on the back of the supersized rate cut.

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)
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%
Oct'23	7.28%

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## Key Triggers for October Series

- Q2FY25 Preview and Results
- RBI Policy
- Haryana & J&K Election Outcomes
- Maharashtra Election Announcement
- Global News and FII Flows
- US Election Developments

## Fund Positioning & Strategy

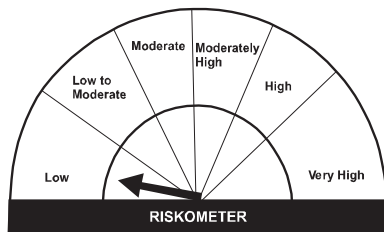
- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.16% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs and Bank FDs (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 September 27, 2024.

# Disclaimer & Product Labelling

September 27, 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\***

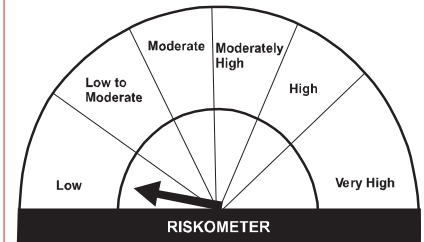
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on August 30, 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 September 27, 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 August 30, 2024.

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