

Here's how you can make the most of arbitrage funds.



Arbitrage is simply a process of buying stocks or shares in one market and selling them in another market to exploit the price difference between them. Arbitrage Funds fall under the category of Hybrid Funds that seek profits on arbitrage opportunities between cash and derivative segments of equity markets. The fund managers look for opportunities that can generate profits between these differences to generate returns.

Here's how Arbitrage Funds work

These Funds start the process by buying a stock in the cash segment and simultaneously selling equal quantity of the stock in the futures segment of the market. The positions initiated are thus to be reversed before or during the expiry of the futures series.



(The above example shows an illustration of the arbitrage opportunity. It is assumed that the cash and futures prices will converge on the day of the expiry. The above opportunity may or may not be always available in the market. This is for illustration purpose only. No assurance can be given that prices of stock and stock futures will correlate perfectly on expiry date of stock futures)

Features of Arbitrage Funds



Endeavor to generate positive returns during market volatility



Tax-efficient, as tax treatment is similar to equity funds



Offer relatively risk-free returns among equity investments



Aims to generate returns through fully hedged exposure to equities

Arbitrage Funds and Taxation

Since Arbitrage Funds hold a minimum 65% in equities where the same is hedged, they are thus taxed as equity-oriented funds. If an investor redeems their investment after one year, the gains from overall equities are tax-free up to Rs.1 lakh. Beyond this limit, the investor has to pay 10% Long-Term Capital Gains tax. Short Term Capital Gains tax is also lower than other debt funds at 15%.



Who are Arbitrage Funds suitable for?

- 1 Investors seeking low-risk but reasonable returns in a volatile market
- 2 Those in a higher income tax bracket can use them to park surplus money for a short period
- 3 Those with an investment horizon of 3 months or more can park a part of their portfolio in these funds

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Investors should consult their tax consultant if in doubt about whether the product is suitable for them.

An Investor Education & Awareness Initiative

Investors should deal only with Registered Mutual Funds, to be verified on SEBI website under Intermediaries/Market Infrastructure Institutions". Refer to www.assetmanagement.hsbc.co.in for details regarding a one-time KYC (Know Your Customer) process (Refer to www.scores.gov.in for details on KYC process). Refer to www.assetmanagement.hsbc.co.in for details on KYC process, etc. For complaints redressal, either visit www.assetmanagement.hsbc.co.in or SEBI's website www.scores.gov.in. Investors may refer to the section on 'Investor Education' on the website of Mutual Fund for the details on all 'Investor Education' on the website of Mutual Fund for the details on all 'Investor Education and Awareness Initiatives' undertaken by the AMC.

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