

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

Feb 2023

Inception Date

30th June 2014

AUM as on 31st Jan 2023

Rs. 2,355.89 Crore

Benchmark

Nifty 50 Arbitrage Index

Minimum Inv. Amount

Rs. 5,000

Additional Inv. Amount

Rs. 1,000

Exit Load

- On or before 1 month from the date of allotment: 0.50%
- After 1 month: **NIL.**

Plans & Options

Regular & Direct Plans

Growth & IDCW*

Monthly & Quarterly

(Payout & Re-investment)

*refer note on slide 4

Fund Managers

For Equity Portfolio

Mr. Praveen Ayathan

For Debt Portfolio

Mr. Ritesh Jain

About HSBC Arbitrage Fund

- Enters into simultaneous transactions of a long position in cash and exactly off-setting 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

- The roll spread (annualized) in the books of HSBC Arbitrage Fund was approximately 7.24% for the start of Feb'23 series.
- Nifty was volatile for the month of January 2023 as it decreased by 1.6% witnessing second consecutive month of decline. FIIs were net sellers this month as well, selling equities to the tune of \$1.59 bn Vs \$167 mn. AUM of Arbitrage Funds increased by almost 3,000 Crs as compared to the previous expiry (60,636 Crs Vs 57,790 Crs Previous).
- Global equity markets recovered with the fear of recession subsiding as witnessed by the rise in benchmark equity indices. Among major US indices NASDAQ gained the most, up by 10%.
- ECB indicated that it will continue to remain hawkish - hiking rates by 50 bps both in Feb'23 & Mar'23 each and will continue to raise rates in the months after in a bid to control inflation while the Fed is expected to end its tightening cycle after a 25 bps hike at each of its next two meetings.
- Domestically, all eyes will be on the upcoming budget which will be presented on the 1st of Feb 2023. The markets have been cautious this month, moving sideways – budget coupled with the ongoing corporate earnings season could act as a catalyst for markets to move in either direction

HSBC Arbitrage Fund

Series (Month)	~ Roll spreads (Annualised)
Jan'23	7.24%
Dec '22	9.54%
Nov '22	7.07%
Oct'22	5.54%
Sep'22	6.68%
Aug' 22	5.82%
Jul'22	4.49%
Jun'22	3.80%
May'22	3.21%
Apr'22	4.30%
Mar'22	5.00%
Feb'22	3.49%

The above table indicates the approximate average spread of arbitrage position and does not in any manner indicates any return potential of the scheme.

*Source - Internal analysis

Key Events to Watch

In the immediate future, key events to be watched going forward that may control the Indian markets are

- Global markets
- Q3 results
- FED meeting
- Recession, Inflation & Tightening
- Crude Oil and Commodities

We continue to believe, investors should stay put in this category, as there may be more opportunities in the volatile markets.

HSBC Arbitrage Fund

Fund Positioning & Strategy:

- HSBC Arbitrage Fund is Rs. 2,355.89 Crore (as on 31st Jan 2023)
- Currently, allocation towards hedged equities or cash futures arbitrage is at ~66% with a tilt towards Large caps. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities 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.**

Post Tax Return Simulation

Investors with a 6 months investment horizon can look at HSBC Arbitrage Fund as a good proxy to Overnight, Liquid and Money Market Funds or any other traditional investment avenues (Bank FD's) as the same provides better tax adjusted returns.

Series (Month)	Arbitrage Funds	Liquid/Bank FD's
Investment Tenure	6 Months	6 Months
Invested Amount	1,000,000.00	1,000,000.00
Assumed Pre-Tax Returns	5.80%	6.00%
Pre-Tax Gains / Interest	29,000.00	30,000.00
Tax rate Applicable**	17.16%	34.32%
Total Tax Payable	4,976.40	10,296.00
Post - Tax Value	1,024,023.60	1,019,704.00
Post Tax Return	4.86%	3.98%

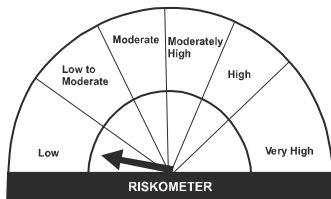
**Tax on Arbitrage Funds : STCG 15% +10% Surcharge + 4 % Cess & Tax on Debt Funds : STCG 30% +10% Surcharge + 4 % Cess. Returns from Mutual funds are subject to market fluctuations while returns on Fixed Deposits and Bonds are fixed.

Above table is Only for Illustration Purpose

Disclaimer & Product labelling

HSBC Arbitrage Fund

HSBC Arbitrage Fund



Investors understand that their principal will be at Low risk

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

This product is suitable for investors who are seeking*

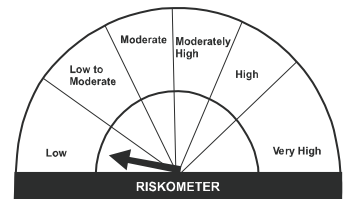
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on 31st January 2023

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



*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 Jan 31, 2023

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