

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

June, 2023

Inception date

30th June 2014

AUM as on May 31, 2023

Rs 1,852 cr

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 average roll spreads captured this month was 7.76% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- May expiry roll levels began at 73-75 bps as participation increased level moved marginally lower to 72-73 bps for selected stocks, rolls progressed gradually on Monday at 71-72 bps & on Tuesday levels remained elevated at 72-73 bps with high participation while on expiry day levels remained volatile and selected stock level narrowed further to 67-70 bps.
- Nifty gained 1.42% in May'23 – increasing for the third consecutive month this year. Year to date the index has increased by 0.68%. FIIs were net buyers this month as well, purchasing equities to the tune of \$3.5 bn as compared to \$1.9 bn of buying seen the previous month. Since March'23 FIIs have been net buyers of equities in the cash segment.
- Global equity markets were volatile in the month of May'23 as the Bank of England raised interest rates to the highest level since 2008 to combat inflation. US markets traded cautiously as the Federal Government discussed raising its debt ceiling to avoid a default. China, on the other hand saw its revenue rise 11.9% (year on year) in the first four months of 2023 – increasing sharply from a 0.5% rise in January to March'23.
- All the major US indices have traded negative this month with S&P500 declining the least, by 0.44%. US10YR increased from 3.43 (Apr'23) to 3.81. US Dollar Index which was trading around 101.6 in Apr'23 has increased to 104.2. Crude has decreased from \$79.5/bbl to \$75.8/bbl – decrease of 4.7% month on month.

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Series (Month)	~ Roll spreads (Annualised)
May '23	7.76%
Apr '23	8.54%
Mar '23	8.34%
Feb '23	6.97%
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%

The above table indicates the approximate average spread of arbitrage position and does not in any manner indicate 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

- Q4 Results & Monsoon
- Currency
- Global markets
- Inflation & Tightening
- Russia – Ukraine war

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

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Fund Positioning & Strategy:

- HSBC Arbitrage Fund is Rs. 1,852 cr. (as on 31st May 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.

	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%

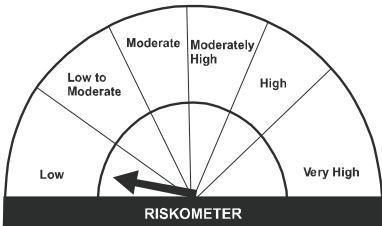
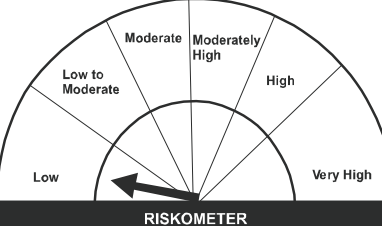
**Tax on Arbitrage Funds: STCG 15% +10% Surcharge + 4 % Cess & Tax on Debt Funds: STCG 30% +10% Surcharge + 4 % Cess. Returns from Mutual funds are subject to market fluctuations while returns on Fixed Deposits and Bonds are fixed.

Above table is only for illustration purpose

Disclaimer & Product labelling

June, 2023

HSBC Arbitrage Fund Riskometer

<p>HSBC Arbitrage Fund</p>  <p>Investors understand that their principal will be from Low risk</p>	<p>Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.</p> <p>This product is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> • 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 <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p>	<p>Benchmark: Nifty 50 Arbitrage Index</p> 
<p>Riskometer is as on 31st May, 2023.</p> <p>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.</p>		

*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 31st May, 2023

CL 351

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

Source: HSBC Mutual Fund and Bloomberg