

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

July, 2023

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 8.57% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- June expiry roll levels began at 69-71 bps as participation increased, levels moved marginally lower to 68-69 bps for selected stocks, rolls progressed gradually to 67-70 bps on July 27, levels remained subdued at 64-67 bps with low participation, while on expiry day levels remained volatile and selected stock level narrowed further to 68-72 bps.
- Nifty gained by 2.4% in June'23 – increasing for the fourth consecutive month this year. The index has increased by 4.8% (YTD). FIIs were net buyers this month as well, purchasing equities to the tune of \$3.5 bn as compared to \$5 bn of buying seen the previous month. Since March'23, FIIs have been net buyers of equities in the cash segment. FIIs have purchased equities to the tune of \$8 bn (YTD).
- AUM of Arbitrage Funds increased compared to the previous expiry (65,744 Crs Vs 60,342 Crs Previous). This month's roll basis was lower than the previous expiry, 68 bps Vs 75 bps the previous month.
- Global equity markets were positive in the month of June'23. The FED paused rate hikes with a hawkish tone indicating two more 25 bps hikes in 2023. The ECB raised interest rates by 25 bps to their highest level in 22 years, hiking rates for the 8th consecutive time – an increase of 400 bps since July 2022 to combat inflation. Inflation in the UK remained elevated at 8.7% for May 2023 which forced the Bank of England to raise interest rates for the 13th time in a row. The Central Bank of China cut interest rates on its one-year medium-term lending facility as industrial output & retail sales growth in May 2023 missed expectations indicating a slowing of economy.
- All three major US indices traded positive this month with S&P500 increasing the most, by 5.2%. US10YR increased marginally from 3.65 (May'23) to 3.85. Dollar Index which was trading around 104.3 in May'23 has decreased to 103.4. Crude increased from \$72.7/bbl to \$74.6/bbl – increase of 2.6% (MoM).
- Domestically – markets traded in the green as the benchmark index NIFTY 50 increased for the fourth consecutive month. RBI in its meeting on 8 June decided to keep the rates unchanged at 6.5% as inflation continued to remain within the tolerance band at 4.25% for May 2023. FIIs continued to purchase equities in June 2023, since March 2023 FIIs have been net buyers of equities.

Inception date

30th June 2014

AUM as on June 30, 2023

Rs 1,817 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

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Series (Month)	~ Roll spreads (Annualised)
Jun '23	8.57%
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 indicates any return potential of the scheme.

*Source - Internal

Key Events to Watch

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

- Q1 Results & Monsoon
- Currency & Global Markets
- Monsoon Session of Parliament
- 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. 1,817 cr. (as on 30th June 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%

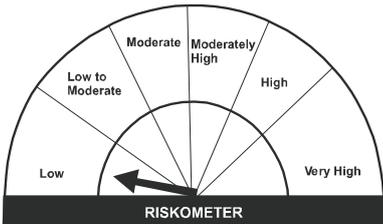
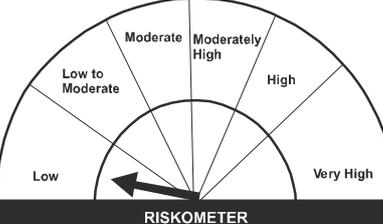
**Tax on Arbitrage Funds: STCG 15% +10% Surcharge + 4 % Cess & Tax on Debt Funds: STCG 30% +10% Surcharge + 4 % Cess. Returns from Mutual funds are subject to market fluctuations while returns on Fixed Deposits and Bonds are fixed.

Above table is only for illustration purpose

Disclaimer & Product labelling

July, 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 30th June 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 30th June 2023

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

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Source: HSBC Mutual Fund and Bloomberg