

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

April, 2023

Inception Date

30th June 2014

AUM as on Mar 31, 2023

Rs 1,956 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 8.34% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- March expiry roll levels began at 63-66 bps as participation increased level moved lower to 60-62 bps for selected stocks, rolls progressed gradually on 27th March at 60 bps & on 28th March levels remained elevated at 66-69 bps with high participation while on expiry day levels remained volatile and selected stock level widened further to 74-80 bps.
- Nifty declined by 1.3% in March'23 as it lost more than 670 pts from the highs seen this month. This is the fourth consecutive month of decline seen in NIFTY, losing 5.7% year to date.
- FII's were net buyers this month, purchasing equities to the tune of \$1.46 bn as compared to \$640 mn of selling seen previous month. Year to date FII's have sold \$3.1 bn in the cash market. AUM of Arb Funds decreased by almost 4,150 cr as compared to the previous expiry (61,318 cr Vs 65,460 cr Previous).
- Global equity markets were very volatile with the banking crises which began in the US spreading to the EU. In spite of fragile market conditions, the FED hiked rates by 25 bps with market participants expecting a pause in the next meet scheduled for May 2023 and rate cuts in subsequent meetings – so as to avoid credit crunch in the wake of the banking crisis.
- Among major US indices NASDAQ increased the most – by 4.87%. Crude has decreased from \$83.4/bbl to \$78.5/bbl – decrease of 5.9% month on month.

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Series (Month)	~ Roll spreads (Annualised)
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%
Apr'22	4.30%

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
- Global markets – bail out
- 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. 1,956 cr (as on 31st March 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.

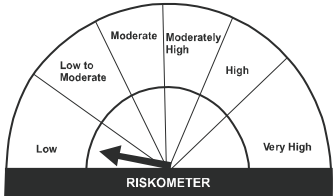
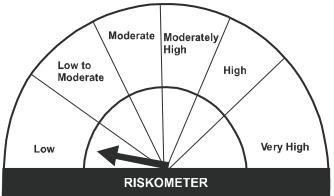
	Arbitrage Funds	Liquid/Bank FD's
Investment Tenure	6 Months	6 Months
Invested Amount	1,000,000.00	1,000,000.00
Assumed Pre-Tax Returns	5.80%	6.00%
Pre-Tax Gains / Interest	29,000.00	30,000.00
Tax rate Applicable**	17.16%	34.32%
Total Tax Payable	4,976.40	10,296.00
Post - Tax Value	1,024,023.60	1,019,704.00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

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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 March 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 (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 March 31, 2023

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

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