

## Product Note

### HSBC Arbitrage Fund (HATF)

Arbitrage - An open ended scheme investing in arbitrage opportunities.

December 2023

| Fund Category  | Fund Manager   | Benchmark <sup>1</sup>   | Inception Date | AUM <sup>&amp;</sup> |
|----------------|--|--------------------------|----------------|----------------------|
| Arbitrage Fund | Praveen Ayathan, Hitesh Gondhia <sup>@</sup> and Mahesh Chhabria | Nifty 50 Arbitrage Index | 30 June 2014   | Rs. 1893.85 Cr       |

| Portfolio                                     | % to net assets |
|---|-----------------|
| Reliance Industries Limited                   | 6.36%           |
| HDFC Bank Limited                             | 4.67%           |
| Tata Power Company Limited                    | 3.16%           |
| Canara Bank                                   | 2.22%           |
| Wipro Limited                                 | 2.14%           |
| Indian Energy Exchange Limited                | 2.08%           |
| Adani Ports and Special Economic Zone Limited | 1.87%           |
| Manappuram Finance Limited                    | 1.84%           |
| Bharat Petroleum Corporation Limited          | 1.81%           |
| Zee Entertainment Enterprises Limited         | 1.76%           |

| Sector - Allocation             | % to net assets |
|---------------------------------|-----------------|
| Banks                           | 13.45%          |
| Government Securities           | 13.01%          |
| Petroleum Products              | 9.04%           |
| Finance                         | 7.96%           |
| Internal - Mutual Fund Units    | 7.03%           |
| IT - Software                   | 3.76%           |
| Power                           | 3.25%           |
| Pharmaceuticals & Biotechnology | 2.84%           |
| Net Current Assets              | 2.78%           |
| Reverse Repos/TREPS             | 2.51%           |

Arbitrage in simple terms means taking advantage of price differential between different markets for the same commodity. In financial markets, this translates into entering into trading positions in the same security through different market segments.

### Fund Strategy

- Currently, allocation towards hedged equities or cash futures arbitrage is at ~73%.
- The fund aims to 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.

### Investment Objective

The investment objective of the Scheme is to seek to generate reasonable returns by predominantly investing in arbitrage opportunities in the cash and derivatives segments of the equity markets and by investing balance in debt and money market instruments. There is no assurance that the objective of the Scheme will be realised and the Scheme does not assure or guarantee any returns.

Entry Load\*: Not Applicable, Exit Load: On and before 1 month from the date of allotment or Purchase applying First in First out basis : 0.5%. After 1 month from the date of allotment or purchase : NIL \* In terms of 10.4.1.a. of SEBI Master Circular on Mutual Funds dated May 19, 2023, no entry load will be charged to the investor effective August 1, 2009.

Month End Total Expenses Ratios (Annualized)<sup>2</sup> – Regular<sup>3</sup>: 0.94%, Direct: 0.27%

<sup>1</sup> As per clause 1.9 of the SEBI Master Circular dated May 19, 2023, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark effective from 01 December 2021.

<sup>2</sup> TER Annualized TER including GST on Investment Management Fees

<sup>3</sup> Continuing plans

<sup>@</sup> Managing since October 01, 2023. Please refer notice cum addendum dated September 29, 2023.

<sup>&</sup>For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: <https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library/#accordion1446811090-4>

Note: The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).

Source – HSBC Mutual Fund, Data as of 30 November 2023. Past performance may or may not be sustained in the future and is not indicative of future results.

Note : Please refer to Scheme Information Document for more details on Asset Allocation of the scheme.

## HSBC Arbitrage Fund philosophy

- To enter into simultaneous transactions of a long position in cash and exactly off-setting short position in futures.
- Towards the expiry or before the expiry of the derivatives contract, the positions are reversed or rolled over.

Note : Fund Manager manages the Fund as per prevailing Market condition. The above philosophy shall not be treated as investment strategy which is subject to Market condition at a given point of time.

## Why HSBC Arbitrage Fund?

- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments
- Aim to provide reasonable liquidity and risk adjusted performance to suit the investor's requirements
- Maintains optimum allocation across arbitrage instruments
- Aims to generate opportunity of reasonable returns over short to medium term

## Market Actions

The average roll spreads captured this month was 8.28% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.

Nov expiry roll levels began at 65-68 bps as level crashed to 60-62 bps, as participation aggression was seen from short rollers. Rolls progressed gradually to 61-62 bps on low participation, while on expiry day levels remained volatile for selected stock level widen towards the end at 72-75 bps.

Nifty increased 5.5% in November 2023 (after decreasing by 2.8% in Oct'23), posting the best monthly returns since July 2022. Year to date (Nov 30, 2023), the index has increased by 11.2%.

FII's turned net buyers this month – after two consecutive months of selling. FIIs purchased equities worth more than \$1.1 bn as compared to \$2.6 bn of selling seen the previous month. Year to date (Nov 30, 2023), FIIs have purchased equities worth \$12.7 bn. FIIs who were net short in stock futures' previous expiry have now turned net long. Retail increased their net longs compared to the last expiry.

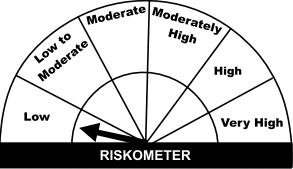

Equities traded positive this month – NIFTY breached the 20k mark first time since September this year. CPI inflation fell to 4.87% (YoY) in October 2023, led by a favorable base effect and falling core inflation. However, there was a sequential increase in headline inflation (0.7% MoM) for the first time in three months. With better-than-expected Q2FY24 numbers and FII flows returning markets seem poised to end the year on a positive note.

## Global Markets

Global equity markets increased in Nov'23, especially after cooler US CPI numbers for October 2023, (YoY) CPI stood at 3.2%, declining from 3.7% in September 2023. Core inflation for October 2023 was 0.2%. Markets reacted positively to this print - participants now expect the Fed to wrap up its rate-hiking campaign, S&P 500 recorded its biggest daily gains since April of this year on the day of inflation announcement, US10Y which rose to over 5% in October 2023, declined below 4.5% following the soft inflation report. However, the FED made it clear in its minutes that rates would remain high until inflation is under control.

US Dollar Index hit a three-month low and has seen the biggest monthly decline in a year in November 2023 - it was trading around 106.7 in October 2023 and has decreased to 103. Crude decreased from \$87.4/bbl to \$80.5/bbl.

## Product Label

| Scheme name and Type of scheme   | Scheme Risk-o-meter   | Benchmark Risk-o-meter  |
|--|---|---|
| <p><b>HSBC Arbitrage Fund</b></p> <p><b>Arbitrage Fund</b> – An open ended scheme investing in arbitrage opportunities.</p> <p><b>This product is suitable for Investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>• Generation of reasonable returns over short to medium term</li> <li>• Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instrument.</li> </ul> |  <p><b>RISKOMETER</b></p> <p>Investors understand that their principal will be at Low risk</p> | <p><b>Benchmark Index: Nifty 50 Arbitrage Index</b></p>  <p><b>RISKOMETER</b></p> |

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

**Note on Risk-o-meters:** Riskometer is as on 30 November 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 that particular scheme

**Note :** Please refer to Scheme Information Document for more details on Asset Allocation of the scheme.

Past performance may or may not be sustained in the future and is not indicative of future results. Source: HSBC Mutual Fund, data as on 30 November 2023

Disclaimer: This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

© Copyright. HSBC Asset Management (India) Private Limited 2023, ALL RIGHTS RESERVED.  
 HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.  
 GST - 27AABCH0007N1ZS, Email: investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co/in

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