

Product Note

HSBC Arbitrage Fund (HATF)

(An open ended scheme investing in arbitrage opportunities)

November 2024

Fund Category	Fund Manager	Benchmark ¹	Inception Date	AUM ^{&}
Arbitrage Fund	Praveen Ayathan, Hitesh Gondhia, Mahesh Chhabria and Kapil Punjabi [@]	Nifty 50 Arbitrage Index	30 June 2014	Rs. 2,441.28 Cr

Portfolio	% to net assets	Industry - Allocation	% to net assets
Bank of Baroda	7.34%	Banks	22.35%
Reliance Industries Limited	5.90%	Internal - Mutual Fund Units	11.80%
HDFC Bank Limited	4.60%	Government Securities	9.51%
Laurus Labs Limited	2.96%	Pharmaceuticals & Biotechnology	6.36%
Vedanta Limited	2.72%	Petroleum Products	6.32%
Bandhan Bank Limited	2.53%	Finance	4.80%
Tata Power Company Limited	2.25%	Power	3.02%
Kotak Mahindra Bank Limited	1.95%	Consumer Durables	2.92%
Bharat Heavy Electricals Limited	1.91%	Telecom - Services	2.85%
Hindustan Aeronautics Limited	1.80%	Diversified Metals	2.72%

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 Approach

- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.51% with tilt towards Mid cap.
- The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exist.
- 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 as on October 31, 2024.

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.

Exit Load: Any redemption/switch-out of units on or before 1 month from the date of allotment: 0.25% If units are redeemed or switched out after 1 Month from the date of allotment: NIL
(Effective date: August 01, 2023)

Month End Total Expenses Ratios (Annualized)² – Regular³: 0.93%, Direct: 0.26%

¹ As per clause 1.9 of the SEBI Master Circular dated June 27, 2024, 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.

² TER Annualized TER including GST on Investment Management Fees

³ Continuing plans

[@] Managing since from May 1, 2024, Please refer notice cum addendum dated April 30, 2024

[&]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 31 October 2024. **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.

About HSBC Arbitrage Fund

- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.16% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can 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 as on September 27, 2024.

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 8.22% annualized. Allocation towards hedged equities is at 75.08 with tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of October expiry saw rollover basis to start at 67-68 bps with very low participation followed by a decline to 65-66 bps levels. At the beginning of expiry week, we saw participation by short rollers at 63-64 bps, although with low volumes. Last two days of expiry week we saw rolls trading lower in a range of 60-61 bps with certain stocks falling to 52-54 bps levels, and even on expiry day roll levels did not inch up.
- Nifty 50 index decreased 6.2% in November 2024 after reaching all-time high in September 2024.
- FIIs heavily sold this month, more than \$10 bn – highest ever monthly selling, as compared to \$6 bn of buying seen previous month. Year to date, FIIs have sold equities close to \$0.4 bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,34,036 crs vs Rs 2,25,789 crs). This month average roll basis was lower than previous expiry, 63 bps Vs 68 bps previous month.

Market Movements

- Markets saw a sharp decline this month due to FIIs pulling out funds in record quantum coupled with weaker corporate results for the second quarter.
- FII selling can be attributed to two factors:
 - 1) Profit booking after markets reached all-time high in October 2024; and
 - 2) Funds flowing from India to China in the wake of a significant rise in Chinese markets.
- Among the major global market indices, India has emerged as the biggest loser over the last one month.
- CPI inflation rose to a nine-month high of 5.49% YoY in September 2024 (Consensus: 5.10%; Prior: 3.65%), primarily driven by higher food (9.2% YoY) and gold prices, as well as the fading favorable base effect.
- Investors will remain cautious going into the next month. There is growing expectation that RBI will go in for a rate cut in either December 2024 or February 2025.

Global Markets

- Global equity markets have been mixed this month with the European markets trading negative while US stocks trading with gains. US Bond yields reached a three-month high in the second half of the month owing to uncertainty around the presidential elections and further rate cuts. Markets are pricing in ~25bps of easing by the end of 2024.
- For the sixth consecutive month, the US annual inflation rate fell, from 2.5% in August to 2.4% in September 2024 — the lowest level since February 2021—while still exceeding 2.3% of projections.
- In the UK, CPI declined sharply to 1.7% (YoY) in September from 2.2% in August 2024 bolstering bets of a November 2024 rate cut from current 5%. The current inflation print is the lowest since April 2021 – investors are now putting a 90% chance on two 25 bps rate cuts by the end of this year, up from a roughly 80%.
- In the US, two of the three major indices are trading positive this month - with NASDAQ having increased the most, by 2.4%. US10YR increased from 3.8% (September 2024) to 4.3%. US Dollar Index increased from 100.8 in September 2024 to 104.
- Crude increased from \$71.7/bbl to \$72.3/bbl, it had risen to as high as \$79.7/bbl on the back of geo-political tensions.

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.

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Key Triggers for November Series:

- US Elections
- Maharashtra Elections
- US Fed Meet Outcome
- Remaining of Q2 Earnings

The below table indicates the approximate average spread of arbitrage position and does not in any manner indicates any return potential of the scheme. Investors should not consider below as investment advice or recommendation. Past performance may or may not be sustained in future.

Series (Month)	~ Roll Spreads (Annualised)
Oct'24	8.22%
Sep'24	7.12%
Aug '24	7.57%
July '24	7.48%
June'24	8.93%
May '24	9.26%
Apr '24	7.55%
Mar '24	10.19%
Feb'24	8.87%
Jan'23	8.65%
Dec'23	11.26%
Nov'23	8.28%

Fund Manager - Praveen Ayathan Effective 30 Jun 2014. Total Schemes Managed - 5
Fund Manager - Hitesh Gondhia Effective 01 Oct 2023. Total Schemes Managed - 3
Fund Manager - Mahesh Chhabria Effective 15 Jul 2023. Total Schemes Managed – 11
Fund Manager - Kapil Lal Punjabi Effective 01 November 2024. Total Schemes Managed - 17

Lump Sum Investment Performance									Inception Date
Fund / Benchmark (Value of Rs 10,000 invested)	1 Year		3 Years		5 Years		Since Inception		
	Amount in Rs	Returns %	Amount in Rs	Returns %	Amount in Rs	Returns %	Amount in Rs	Returns %	
HSBC Arbitrage Fund – Regular Plan~	10727	7.25	11867	5.86	12911	5.24	18175	5.95	07-Feb-11
Scheme Benchmark (Nifty 50 Arbitrage Index)	10718	7.16	11998	6.24	12791	5.04	17626	5.63	
Additional Benchmark (Nifty 50 TRI)	12839	28.30	14195	12.35	21582	16.61	36093	13.21	

Past performance may or may not be sustained in the future and is not indicative of future results. The performance details provided herein are of Regular Plan - Growth Option. Returns on ₹10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns for the respective periods are provided as on last available NAV of October 2024 for the respective schemes. Returns for 1 year and above are Compounded Annualized. Returns for less than 1 year is Simple Annualized. Load is not taken into consideration for computation of performance. Different plans shall have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged to the Regular Plan.

As per clause 5.9.1 of the SEBI Master Circular dated June 27, 2024, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed are provided from the date of allotment of units.

Post merger performance of the surviving scheme, arising out of merger of schemes with similar features, is computed as per the provisions of clause 13.4 of the SEBI Master Circular dated June 27, 2024, on Disclosure of Performance of Schemes post-merger using the weighted average performance of both transferor and transferee schemes. In other cases, performance is computed using the Applicable NAV of the surviving/continuing schemes. ~ Face value Rs 10

SIP Performance HSBC Arbitrage Fund - Reg					Inception Date: 07-Feb-11
Scheme Name & Benchmarks	1 Year	3 Years	5 Years	Since Inception	
Total amount invested (₹)	120000	360000	600000	1240000	
Market Value as on October 31, 2024 (₹)	1,24,562	3,98,685	6,95,297	16,74,128	
Scheme Returns (%)	7.11	6.74	5.83	5.66	
Nifty 50 Arbitrage Index - Scheme Benchmark (₹)	1,24,308	4,00,024	6,98,320	16,55,051	
Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%)	6.71	6.96	6.00	5.44	
Nifty 50 TRI - Additional Benchmark (₹)	1,29,338	4,64,326	9,55,289	28,05,008	
Nifty 50 TRI - Additional Benchmark Returns (%)	14.70	17.23	18.66	15.05	

Past performance may or may not be sustained in the future and is not indicative of future results. For SIP returns, monthly investment of Rs. 10,000/- invested on the 1st day of every month has been considered. SIP Return are calculated on XIRR basis. IDCW are assumed to be reinvested and bonus is adjusted. Load is not taken into consideration. Sonal Gupta is dedicated fund manager for investments in foreign securities by all the schemes of HSBC Mutual Fund.
Source: HSBC Mutual Fund, data as on 31 October 2024
[Click here](#) to check other funds performance managed by the Fund Manager

Product Label

Scheme name and Type of scheme	Scheme Risk-o-meter	Benchmark Risk-o-meter (as applicable)
HSBC Arbitrage Fund (An open ended scheme investing in arbitrage opportunities) This product is suitable for investors who are seeking*: <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 instrument.	<p>Investors understand that their principal will be at Low risk</p>	<p>As per AMFI Tier I Benchmark i.e. Benchmark Index: Nifty 50 Arbitrage Index</p> <p>RISKOMETER</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 31 October 2024, 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 31 October 2024

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