

Product Note

HSBC Arbitrage Fund (HATF)

An open ended scheme investing in arbitrage opportunities.

June 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. 2,274.14 Cr |

| Portfolio | % to net assets | Sector - Allocation | % to net assets |
|---------------------------------------|-----------------|---------------------------------|-----------------|
| HDFC Bank Limited | 6.97% | Banks | 24.89% |
| Kotak Mahindra Bank Limited | 6.17% | Government Securities | 9.05% |
| Bank of Baroda | 5.98% | Reverse Repos/TREPS | 8.26% |
| Reliance Industries Limited | 4.48% | Internal - Mutual Fund Units | 7.85% |
| Vedanta Limited | 3.93% | Pharmaceuticals & Biotechnology | 6.92% |
| Ashok Leyland Limited | 2.45% | Petroleum Products | 5.04% |
| Steel Authority of India Limited | 2.22% | Diversified Metals | 3.93% |
| Dixon Technologies (India) Limited | 2.17% | IT - Software | 3.10% |
| Biocon Limited | 1.81% | Consumer Durables | 2.70% |
| Zee Entertainment Enterprises Limited | 1.79% | Aerospace & Defense | 2.56% |

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 May 30, 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.

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)² – Regular³: 0.94%, Direct: 0.28%

¹ 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.

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 May 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.

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.

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 9.26% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.

- The start of May Expiry saw rollover basis at 72/73 bps with low participation as roll levels lowered to 67/69 bps, still there wasn't any meaningful increase in participation, once roll levels touched 69-70 bps we saw aggressive participation by short rollers and was maintained progressively with high volumes, finally on expiry day we saw rollovers moving in a wide range of 75-80 bps with certain stocks hitting 88-90 bps at the end of expiry.
- NSE Nifty 50 decreased 0.5% in May'24 (MTD), in Apr'24 the index had gained 1.2%.
- FIIs have been net sellers this month too, selling equities to the tune of \$3.1bn (MTD) as compared to \$1 bn of selling previous month. In the last 3 months FIIs have sold equities close to \$230 mn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs2,06,106 Crs vs Rs 1,93,334 Crs). This month average roll basis was lower than previous expiry, 71 bps Vs 74.5 bps previous month. Total rollover at 92.5% for this month was slightly lower than the 6-month average of 93%.
- Markets were volatile this month with the benchmark index NIFTY50 witnessing a 3.6% drawdown from the highs and closing almost 2.5% up from the lows.
- A massive dividend by the RBI to the Government of India (Rs 2.1 trn vs Rs 800-850 bn forecasted in the Interim Budget) cheered the markets.
- Headline CPI eased to 4.83% in Apr'24, while core inflation hit another series low (3.28% YoY). However, sequential momentum ticked up. In spite of easing inflation, there is no macro stability case for the RBI to precede the Fed in any rate action.
- With FII flows returning in the second half of the month and likelihood of the incumbent government to come back to power, markets could witness a rally post the election results.

Global Markets

- In the US, except for Dow Jones, S&P500 & Nasdaq are trading positive this month - with NASDAQ having increased the most, by 5.7%.
- US10YR decreased from 4.7% (Apr'24) to 4.5%. US Dollar Index decreased from 106.2 in Apr'24 to 104.8.
- Crude decreased from \$87.9/bbl to \$81.6/bbl. Decline in crude can be attributed to worries that strong US macroeconomic data would keep interest rates elevated for longer than expected.

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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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 June 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 % | 07-Feb-11 |
| HSBC Arbitrage Fund – Regular Plan – | 10754 | 7.52 | 11713 | 5.41 | 12863 | 5.16 | 17675 | 5.91 | |
| Scheme Benchmark (Nifty 50 Arbitrage Index) | 10819 | 8.17 | 11844 | 5.80 | 12797 | 5.05 | 17182 | 5.60 | |
| Additional Benchmark (Nifty 50 TRI) | 12302 | 22.95 | 14991 | 14.44 | 20072 | 14.93 | 33399 | 12.92 | |

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 May 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 May 19, 2023, 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 May 19, 2023, 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 Balanced Advantage Fund - Reg | | | | | Inception Date: 07-Feb-11 |
|---------------------------------------------------------|----------|----------|----------|-----------------|---------------------------|
| Scheme Name & Benchmarks | 1 Year | 3 Years | 5 Years | Since Inception | |
| Total amount invested (₹) | 120000 | 360000 | 600000 | 1190000 | |
| Market Value as on May 31, 2024 (₹) | 1,24,836 | 3,96,462 | 6,90,505 | 15,78,627 | |
| Scheme Returns (%) | 7.56 | 6.37 | 5.56 | 5.56 | |
| Nifty 50 Arbitrage Index - Scheme Benchmark (₹) | 1,25,041 | 3,99,423 | 6,94,658 | 15,63,947 | |
| Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%) | 7.89 | 6.87 | 5.80 | 5.38 | |
| Nifty 50 TRI - Additional Benchmark (₹) | 1,33,074 | 4,55,494 | 9,42,963 | 25,50,069 | |
| Nifty 50 TRI - Additional Benchmark Returns (%) | 20.82 | 15.90 | 18.14 | 14.71 | |

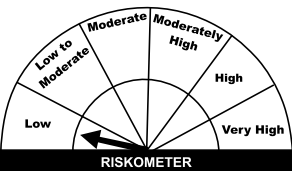

Past performance may or may not be sustained in the future and is not indicative of future results. For SIP returns, monthly investment of Rs. 10,000/- invested on the 1st day of every month has been considered. SIP Return are calculated on XIRR basis. IDCW are assumed to be reinvested and bonus is adjusted. 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 May 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 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>HSBC Arbitrage Fund</p> <p>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 instrument. |  <p>RISKOMETER</p> <p>Investors understand that their principal will be at Low risk</p> | <p>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 May 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 May 2024

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