

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

August, 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 7.93% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- July expiry roll levels began at 71-72 bps as level increased participation moved higher to 74-75 bps for selected stocks, rolls progressed gradually on at 75-78 bps and on July 25, 2023 levels remained higher at 78-80 bps with low participation while on expiry day levels remained volatile and selected stock level widen further to 85-87 bps.
- The Nifty index almost touched 20,000 mark in July (missed by ~8 pts), and from that level FPIs have cut their net long positions significantly. The depletion of long interest from FPI's could be taken as a caution since their exposure in derivatives has a high correlation to Nifty's trend.
- In a nutshell, rollovers data suggests high rollover activity at higher cost, however, relatively lesser longs from FPIs. Expect Nifty to face immediate correction/time consolidate as 20,000 mark remains an important resistance. Nifty gained around 3.6% in July'23 – increasing for the fifth consecutive month this year.
- FII's were net buyers this month as well, purchasing equities to the tune of \$4.1 bn as compared to \$6.7 bn of buying seen the previous month. Since March'23, FII's have been net buyers of equities in the cash segment. Year to date (July 28), FII's have purchased equities to the tune of \$15 bn AUM of Arbitrage Funds increased compared to the previous expiry (71,525 Crs Vs 65,744 Crs). Total rollover proportion at 92.9% for this month was marginally lower than the 6-month average of 93.3%.
- Global equity markets traded in the green in the month of July'23 as the FED hiked interest rates by 25 bps – 11th hike in its last 12 meetings. In the UK inflation came in at 7.9% for June 2023 - below estimates of 8.2%. The ECB raised interest rates for the 9th consecutive time this month, Euro zone interest rates have risen 425 bps points since July 2022, their highest in 23 years, and are now close to peaking as headline inflation cools and the economy weakens.
- All three major US indices traded positive this month with Dow Jones increasing the most, by 2.54%. US10YR increased marginally from 3.84 (June'23) to 3.87. US Dollar Index which was trading around 102.9 in June'23 has decreased to 100.6. Crude increased from \$74.9/bbl to \$83.3/bbl.
- Domestically – markets traded in the green as the benchmark index NIFTY 50 increased for the fifth consecutive month. RBI MPC is to hold its next meeting from 8-10 Aug 2023 to decide whether to maintain the status quo at 6.5% or raise rates with most market participants expecting the RBI to keep rates unchanged as inflation continues to remain within the tolerance band at 4.81% for June 2023. An uptick in inflation for the month of June (4.81% Vs 4.25% for May 2023) has been primarily attributed to the surge in food prices. With positive FII flows the market is all set to touch the 20k mark in the coming months.

Inception date

30th June 2014

AUM as on July 31, 2023

Rs 1,795 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)
July '23	7.93%
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%

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

- 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. 1,795 cr. (as on 31st July 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%

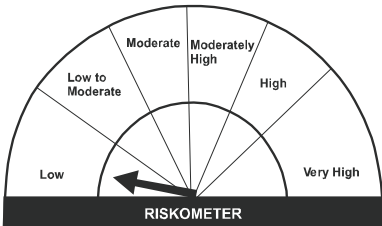
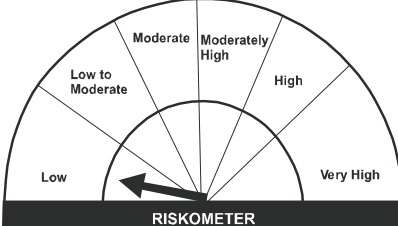
**Tax on Arbitrage Funds: STCG 15% +10% Surcharge + 4 % Cess & Tax on Debt Funds: STCG 30% +10% Surcharge + 4 % Cess. Returns from Mutual funds are subject to market fluctuations while returns on Fixed Deposits and Bonds are fixed.

Above table is only for illustration purpose

Disclaimer & Product labelling

August, 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 31st July 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 31st July 2023

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

Source: HSBC Mutual Fund and Bloomberg