

# HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

January 01, 2026



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## About HSBC Arbitrage Fund

- Enters into simultaneous transactions of a long position in cash and exactly offsetting 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 & Overview

- The average roll spreads captured this month was 8.39% annualized.
- Allocation towards hedged equities is at 75.05%.
- No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The expiry rolls saw volatility, rising from 63-64 levels to 69-70bps levels before the start of holiday season. As we moved to expiry week, rolls dropped to 64-65 bps levels and finally settling at levels just over 60bps on the final day.
- NIFTY declined 1% in Dec'25 (MTD) – after increasing by 1.9% in Nov'25. This month to date, FIIIs have sold equities close to \$2bn. In Nov'25 FIIIs sold \$426mn in cash.
- AUM of Arbitrage funds increased compared to previous expiry (Rs 328,272Crs Vs Rs 325,766Crs). This month average roll basis was lower than previous expiry, 64bps Vs 68bps previous month.

## Market Movements

- The GDP growth rate for Q2FY26 came in at 8.2%; the uptick in growth was higher than estimates (est. 7.3%).
- The GDP growth rates for the preceding quarter and the year ago period were 7.6% and 5.8%, respectively.
- The positive surprise was led by factors such as 1) lagged effects of monetary and regulatory easing, 2) possible improvement in real purchasing power/consumption, and 3) limited hit so far on India's exports (5.6% growth).
- Meanwhile, MPC voted unanimously to cut the benchmark lending rate by 25bps (from 5.5% to 5.25%) on 05 Dec 2025, citing rapid disinflation and the need to support broad-based economic recovery.
- November headline inflation ticked up to 0.7%, driven by fading base effects and an uptick in food prices, CPI inflation projection has been slashed to 2.0% for FY26 (down from earlier estimate of 2.6%).

### Inception Date

30th June 2014

### Benchmark<sup>1</sup>

Nifty 50 Arbitrage Index

### Minimum Inv. Amount

Rs. 5,000 & in multiples of Re. 1/- thereafter

Additional Inv. Amount

Rs. 1,000 & in multiples of Re. 1/- thereafter

### 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

### Plans & Options

Regular & Direct Plans

Growth & IDCW<sup>^</sup>

Monthly & Quarterly

(Payout & Re-investment)

<sup>^</sup>refer note on slide 5

### Fund Managers<sup>2</sup>

#### For Arbitrage Portfolio

Praveen Ayathan

#### For Debt Portfolio

Mahesh Chhabria

Mohd. Asif Rizwi

<sup>1</sup>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.

<sup>2</sup>Fund Manager-Praveen Ayathan - Effective date 30 Jun 2014. Fund Manager-Mahesh Chhabria - Effective date 15 Jul 2023. Fund Manager - Mohd Asif Rizwi - Effective date - 01 Feb 2025.

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## Global Markets

- Global equity markets around the world have been mostly positive this month.
- The Fed cut its policy rate by 25bps for a third consecutive meeting on 11 Dec 2025, to 3.5-3.75%, as widely expected, with 3 dissents (one dovish, two hawkish).
- Risks to the labor market prompted the Dec-25 cut.
- Powell raised a few eyebrows in noting that job growth continues to be overstated by around 60k/month, implying true job growth has perhaps been negative, which merits a more-neutral policy rate.
- US growth surprised positively with Q3 GDP at 4.3% - the fastest in two years – driven by resilient consumption and business spend.
- The CPI rose at a 2.7% annualized rate last month, a delayed report from the Bureau of Labor Statistics showed. Economists polled by Dow Jones expected the CPI to have risen 3.1%.
- Meanwhile in the UK, the CPI inflation rate for November 2025 was 3.2%, down from 3.6% in October 2025, marking the lowest rate since March 2025. This is a continuation of a downward trend from the 2022 peak.
- In the US, all the three major indices are trading positive this month (MTD) - with DOW having increased the most, by 1.4%.
- US10YR was trading slightly higher as compared to the previous month 4.13% Vs 4% (Nov'25).
- US Dollar Index decreased compared to last month: 98.2 Vs 99.4 (Nov'25).
- Crude prices declined this month: \$61.3/bbl. Vs \$63.2/bbl. (Nov'25)

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)
Dec'25	8.39%
Nov'25	7.10%
Oct'25	7.43%
Sep'25	6.96%
Aug'25	6.31%
July'25	6.92%
June'25	6.59%
May'25	7.23%
Apr '25	6.87%
Mar '25	9.14%
Feb'25	6.78%
Jan' 25	7.73%

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## Key triggers for January series

- Q3 result update
- Developments around US-India trade deal
- Key to track foreign fund flows
- Pre budget consultations

## Fund Positioning & Strategy

- 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 schemes of HSBC Mutual Fund, G-Secs/ TBILLS and CP/CD's (including for 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 January 01, 2026.

# Disclaimer & Product Labelling

January 01, 2026

## HSBC Arbitrage Fund

<p>HSBC Arbitrage Fund</p>  <p>The risk of the scheme is Low Risk</p>	<p><b>Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.</b></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 instruments</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p>Riskometer is as on 30 November 2025, 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>	<p>Benchmark: Nifty 50 Arbitrage Index</p>  <p>The risk of the benchmark is Low Risk</p>
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**Source:** Bloomberg, MOSL & HSBC MF estimates as on December 31, 2025 end or as latest available

<sup>1</sup>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 30 November 2025 as latest available.

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