

## Product Note

### HSBC Arbitrage Fund (HATF)

(An open ended scheme investing in arbitrage opportunities)

December 2024

Fund Category	Fund Manager	Benchmark <sup>1</sup>	Inception Date	AUM <sup>&amp;</sup>
Arbitrage Fund	Praveen Ayathan, Hitesh Gondhia, Mahesh Chhabria and Kapil Punjabi <sup>@</sup>	Nifty 50 Arbitrage Index	30 June 2014	Rs. 2,447.57 Cr

  

Portfolio	% to Net Assets	% to Net Assets(Hedged)	% to Net Assets(Unhedged)	Industry - Allocation	% to net assets
Bank of Baroda	7.13%	7.13%	0.00%	Banks	26.89%
Reliance Industries Limited	5.71%	5.71%	0.00%	Internal - Mutual Fund Units	11.84%
HDFC Bank Limited	3.39%	3.39%	0.00%	Government Securities	7.49%
Laurus Labs Limited	3.18%	3.18%	0.00%	Pharmaceuticals & Biotechnology	6.47%
Vedanta Limited	2.69%	2.69%	0.00%	Petroleum Products	6.02%
Kotak Mahindra Bank Limited	2.39%	2.39%	0.00%	Finance	4.45%
Bandhan Bank Limited	2.29%	2.29%	0.00%	Consumer Durables	2.98%
Tata Power Company Limited	2.12%	2.12%	0.00%	Power	2.89%
IndusInd Bank Limited	2.04%	2.04%	0.00%	Diversified Metals	2.69%
Punjab National Bank Limited	2.01%	2.01%	0.00%	Telecom - Services	2.40%

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 77.84% 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 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 November 29, 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)<sup>2</sup>** – Regular<sup>3</sup>: 0.93%, Direct: 0.26%

<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> TER Annualized TER including GST on Investment Management Fees

<sup>3</sup> Continuing plans

<sup>@</sup> Managing since from May 1, 2024, Please refer notice cum addendum dated April 30, 2024

<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 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.

## 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 7.46% annualized. Allocation towards hedged equities is at 77.84 with tilt towards Midcap. No duration or credit risk is taken on the debt side, that will pull down the final returns a bit.
- At the start of November, rollover basis was initially at 60-62 bps with low participation and didn't see any increase in activity; lowering to 58-60 bps levels. Once the levels breached 54-55 bps during the beginning of the week, we saw some short roller participation albeit at low volumes: continuing through the week at 55-58 bps levels with some stocks hitting lower at 45-48 bps.
- NIFTY50 index decreased 1.2% in November 2024 (MTD) after declining by 6.2% in October 2024.
- The pace of FII selling this month has decreased after more than \$11 bn of selling witnessed in October 2024. This month FIIs have sold to the tune of \$1.5 bn. Year to date, FIIs have sold equities close to \$1 bn.
- This month average roll basis was lower than previous expiry, 57 bps vs 63 bps previous month.

## Market Movements

- Markets saw a sharp reversal from the third week of the month – driven by the exit polls and eventual return of the incumbent in Maharashtra Elections. The ADANI saga did weigh down on the markets, however, towards the end of the month most of the stocks from the pack started trading in the green.
- CPI inflation rose to a 14-month high of 6.21% YoY in October (Consensus: 5.90%; prior: 5.49%), primarily driven by higher food (10.9% YoY) and gold prices, as well as an uptick in core inflation.
- Although the recent correction seems to be coming to an end, a strong dollar could limit FII inflows, also poor earnings season marked by weak consumption demand could cap the bullish sentiment in the markets going into the next month.

## Global Markets

- Global equity markets have been mixed this month with the European markets trading negative while US stocks trading with gains.
- Donald Trump winning the US elections also helped drive the positive sentiment, also the FED cut interest rates by 25 bps on Nov 7 – however, multiple FED speakers said that future rate cut actions may be slowing down given the strength of the economy. FED fund futures are currently projecting 52% probability of a rate cut in December and only 3 rate cuts till the end of CY25.

US CPI rose from 2.4% in September 2024 to 2.6% in October 2024, core CPI rose to a three-month high to 3.3% in October 2024.

In the UK, CPI rose to 2.3% (YoY) in Oct'24 reversing the downtrend seen in September 2024 (1.7%) – thereby heaping pressure on the central bank to delay further interest rate cuts.

In the US, all the three major indices are trading positive this month (MTD) - with DOW having increased the most, by 7.1%. US10YR decreased marginally from 4.28% (October 2024) to 4.24%. US Dollar Index increased from 104 in October 2024 to 106.

Crude decreased from \$72.8/bbl to \$72.3/bbl.

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 December Series:

- 45 new stocks in F&O
- RBI Policy Outcome on December 6, 2024
- Geo Politics and Global News
- Low Global Liquidity due to Holiday season

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)
Nov '24	7.46%
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 '23	8.87%
Jan '23	8.65%
Dec '23	11.26%

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 December 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~	10733	7.33	11882	5.92	12925	5.26	18261	5.95	07-Feb-11
Scheme Benchmark (Nifty 50 Arbitrage Index)	10749	7.49	12055	6.43	12853	5.14	17762	5.67	
Additional Benchmark (Nifty 50 TRI)	12127	21.27	14723	13.76	21208	16.21	36001	13.07	

**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 November 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	1250000	
Market Value as on November 29, 2024 (₹)	1,24,423	3,98,674	6,95,662	16,92,114	
Scheme Returns (%)	6.95	6.75	5.86	5.66	
Nifty 50 Arbitrage Index - Scheme Benchmark (₹)	1,24,530	4,01,069	7,00,887	16,77,903	
Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%)	7.12	7.16	6.16	5.51	
Nifty 50 TRI - Additional Benchmark (₹)	1,26,200	4,59,242	9,41,396	28,07,869	
Nifty 50 TRI - Additional Benchmark Returns (%)	9.78	16.50	18.08	14.80	

**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 30 November 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)
<b>HSBC Arbitrage Fund</b>  (An open ended scheme investing in arbitrage opportunities)  <b>This product is suitable for investors who are seeking*:</b> <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>The risk of the scheme is Low Risk</p>	<p>As per AMFI Tier I Benchmark i.e. <b>Benchmark Index: Nifty 50 Arbitrage Index</b></p> <p>The risk of the benchmark is Low Risk</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 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 30 November 2024

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