

Product Note

HSBC Arbitrage Fund (HATF)

An open ended scheme investing in arbitrage opportunities.

February 2024

Fund Category	Fund Manager	Benchmark ¹	Inception Date	AUM ^{&}
Arbitrage Fund	Praveen Ayathan, Hitesh Gondhia [@] and Mahesh Chhabria	Nifty 50 Arbitrage Index	30 June 2014	Rs. 2063.17 Cr

Portfolio	% to net assets
HDFC Bank Limited	6.20%
Reliance Industries Limited	5.76%
Kotak Mahindra Bank Limited	3.90%
Tata Power Company Limited	3.90%
Canara Bank	3.14%
Lupin Limited	2.94%
Wipro Limited	2.27%
Bandhan Bank Limited	2.15%
Vedanta Limited	2.11%
State Bank of India	1.99%

Sector - Allocation	% to net assets
Banks	21.03%
Government Securities	11.93%
Petroleum Products	6.90%
Pharmaceuticals & Biotechnology	6.71%
Internal - Mutual Fund Units	6.53%
Finance	5.55%
Reverse Repos/TREPS	4.31%
Power	3.95%
Telecom - Services	3.58%
Cement & Cement Products	2.60%

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%.
- The fund aims to 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.

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: 0.27%

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 October 01, 2023. Please refer notice cum addendum dated September 29, 2023.

[&]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 January 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.

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.

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 8.65% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.

- January expiry roll levels began at 84-86 bps with very low participation as level moved lower 82-84 bps. Participation aggression was seen from short rollers, rolls progressed gradually to 75-80 bps while on expiry day levels remained volatile for selected stock and levels narrowed towards the end at 72-76 bps.
- Equity markets were jittery this month as the banking sector was disappointed with Q3 numbers, also FII flows retracted this month. The Banking index saw its biggest fall in almost 2 years on January 17 – a day after the heavy-weight index HDFC Bank reported its Q3 results.
- Broader markets remained buoyed this month. CPI inflation rose to 5.69% (YoY) in December (expected 5.88%; before 5.55%), largely due to an unfavorable base effect. Sequentially, headline inflation fell (-0.3% MoM) for the first time in four months.
- Investors seem to be sitting on the side-lines as the Interim Budget is due in February – budget commentary coupled with FII flows could give a firm direction to the markets in the future. Nifty decreased around 1.7% in January 2024, after increasing by 8% in the last month of CY2023.
- FIIs turned net sellers this month. FIIs sold equities worth more than \$2.5 bn as compared to \$7 bn of buying seen the previous month. In the last 3 months, FIIs have bought equities worth \$6.7 bn.
- AUM of Arbitrage Funds increased 11,900 cr compared to the previous expiry. This month's average roll basis was lower than the previous expiry, 83 bps vs 87 bps the previous month.

Global Markets

Global equity markets increased in January 2024 on the back of strong earnings – especially from the Tech & Semiconductor names. Investors expect the Fed to maintain status-quo at its upcoming meeting on January 31, the Fed had last hiked rates in its July 2023 meeting and has since maintained interest rates at 5.25%-5.5%.

- US CPI for December came at 0.3% (MoM) (vs expectations of 0.2%), taking the headline CPI to 3.4% (vs prior 3.1% and expected 3.2%). Core saw a jump of 0.3% (MoM) (on expected lines). Japan Equities (Nikkei 225) broke out to a new high – scaling levels that it did almost 35 years ago, and only 10% away from its ATH from 1989, benefiting materially from the stock exchange regulations requiring companies to improve shareholder value.
- All three major US indices traded positive this month - with NASDAQ increasing the most, by 3.3%. US10YR increased from 3.9% (Dec'23) to 4.1%. The US Dollar Index increased from 101.3 in Dec'23 to 103.5. Crude increased from \$77/bbl to \$81.5/bbl.

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 - 9

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	10753	7.53	11616	5.11	12853	5.15	17263	5.86	07-Feb-11
Scheme Benchmark (Nifty 50 HybriNifty 50 Arbitrage Index)	10845	8.45	11815	5.71	12829	5.11	16772	5.54	
Additional Benchmark (Nifty 50 TRI)	12435	24.35	16510	18.15	21276	16.29	32048	12.91	

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 January 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-a-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.

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	1150000	
Market Value as on January 31, 2024 (₹)	124,864	393,798	685,839	1,502,203	
Scheme Returns (%)	7.57	5.91	5.29	5.45	
Nifty 50 Arbitrage Index - Scheme Benchmark (₹)	125,312	397,137	689,320	1,487,008	
Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%)	8.28	6.47	5.49	5.24	
Nifty 50 TRI - Additional Benchmark (₹)	138,471	459,553	947,510	2,407,964	
Nifty 50 TRI - Additional Benchmark Returns (%)	29.62	16.50	18.32	14.79	

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 January 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 January 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 January 2024

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