



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

August 1, 2025



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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 6.92% annualized.
- Allocation towards hedged equities is at 68.29 with tilt towards large cap.
- No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- Rollover volumes saw a pullback initially on the back of Jane Street issue and were held at 55-56 bps. Start of rollover week the levels were down at 52-53 bps levels with an improvement in volumes.
- On expiry day, roll levels dropped to 47-48 bps levels due to the tariff news with some stocks losing on spreads and volumes as well.
- The NSE NIFTY declined 2.9% in July 2025, after increasing for four consecutive months.
- This month to date, FIIs have sold equities worth \$2 bn. In June 2025 FIIs bought \$2.3 bn in cash.
- AUM of Arbitrage Funds marginally increased compared to previous expiry (Rs 3,02,009 crs vs Rs 2,91,717 crs). This month average roll basis was lower than previous expiry, 53 bps vs 63 bps previous month.

Market Movements

- After four consecutive months of rally, markets declined this month- in tandem with FII flows which were negative this month after four consecutive months of inflows.
- Headline CPI inflation declined once again, to 2.1% YoY in June 2025 (Consensus: 2.25%; Prior: 2.82%), marking a 78-month low. A favorable base effect and lower-than-expected sequential increase in food prices (1.1% MoM; down 1.1% YoY) were the primary drivers of the decline. However, sequentially, headline CPI rose to 0.6% MoM (0.2% MoM prior) – the highest in eight months.
- The July quarter has been a mixed bag so far — with more in-line or modest beats than outright misses, but forward guidance and commentary have kept optimism in check. India bore the brunt – facing a blanket 25% tariff on all exports to the US.
- To add fuel to the fire, US President has threatened additional penalties if India continues purchasing Russian energy, adding to volatility going forward.

Inception Date

30th June 2014

Benchmark¹

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[^]

Monthly & Quarterly

(Payout & Re-investment)

[^]refer note on slide 5

Fund Managers

For Arbitrage Portfolio

Praveen Ayathan &

For Debt Portfolio

Mahesh Chhabria

Mohd. Asif Rizwi

¹As per clause 1.9 of the SEBI Master Circular dated August 1, 2025, 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.

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Global Markets

- Global equity markets around the world have been positive this month.
- The US CPI increased 0.3% MoM, putting the 12-month inflation rate at 2.7%, in line with expectations.
- While the evidence in June was mixed on how much influence tariffs had over prices, there were signs that the duties are having an impact. Apparel and home furnishing prices rose.
- The US FED held rates steady at 4.25%-4.5%.
- UK Inflation unexpectedly rose to its highest in over a year at 3.6% in June, slightly dampening expectations for further cuts in Bank of England interest rates. The higher figure for June was unexpected, with economists having predicted the inflation rate would stay at the 3.4% it hit in April and May.
- China kept its benchmark lending rates steady as the country continues to grapple with weak consumer sentiment and softening growth. The decision comes after the country announced that GDP growth in the second quarter grew at 5.2% YoY, down from 5.4% in the first quarter.
- In the US, 2 out of the 3 three major indices gave positive returns in July 2025 month - with NASDAQ having increased the most, by 4.4%.
- US10YR was higher as compared to the previous month 4.4% vs 4.2% (June 2025).
- US Dollar Index rose compared to last month: 96.9 in Jun'25 vs to 99.8 as on today.
- Crude prices rose on signs of progress in trade talks, indicating bullishness in energy demand: \$71.7/bbl vs \$67.6/bbl (Jun 2025)

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)
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%
Dec' 24	7.63%
Nov'24	7.46%
Oct'24	8.22%
Sep'24	7.12%
Aug'24	7.57%

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Key Triggers for August Series:

- Global Updates Around Tariffs
- RBI Policy Outcome (Aug 6)
- Remainder of Q1 Results
- Festive Season Kicks Off

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 August 1, 2025.

Disclaimer & Product Labelling

August 1, 2025

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Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.

This product is suitable for investors who are seeking*

- 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

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer is as on July 31, 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.

Benchmark: Nifty 50 Arbitrage Index



Source: Bloomberg, MOSL & HSBC MF estimates as on August 1, 2025 end or as latest available

[^]Note: IDCW stands for 'Income Distribution cum Capital Withdrawal option'. The amounts can be distributed out of investors' capital (Equalized on 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 July 31, 2025.

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