



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

June 27, 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 6.59% annualized.
- Allocation towards hedged equities is at 71.82 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.
- The initial week saw rollover levels at 67-68 bps, but the levels couldn't sustain, although at good volumes.
- Start of rollover week the levels were down at 63-64 bps gradually falling to 62 bps.
- On expiry day, roll levels dropped to 59-61bps levels while volume levels were not consistent during the whole week.
- The NSE NIFTY gained 3.2% in June 2025 (MTD) after increasing by 1.7% in May 2025.

Market Movements

- Although the first half of the month, NSE NIFTY saw range-bound activity, the second half pushed up the markets at levels last seen in October 2024.
- RBI cut the Repo rate by 50 bps as against the general expectations of 25 bps rate cut, lowering the repo rate to 5.50%. The other, more interesting aspect of this 50 bps cut was that the RBI stated that the rate cut was front loaded to support economic growth.
- The RBI also cut the CRR by 100 basis points from 4% to 3% over the period September 25-Nov25. This would release close to Rs.2.25 lakh cr to the banking system.
- Headline CPI inflation declined again to 2.82% YoY in May (Consensus: 2.98%; Prior: 3.16%) – breaching the 3% handle for the first time since April 2019. This print is a 75-month low.

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 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.

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Global Markets

- Global equity markets around the world have been mixed this month.
- The FOMC held rates steady at 4.25-4.5%, on expected lines. However, the tilt was hawkish, with 2025 GDP growth revised lower (to 1.4% from 1.7%), and core PCE inflation revised higher (3.1% from 2.8%) – indicating that policymakers expect a tariff-led stagflation scenario in US this year.
- Headline CPI for the month of May 2025 was softer than expected at 0.1% (MoM) (0.2% est) and was up 2.4% (YoY) (2.4% est). Core CPI was also soft, at 0.1% (MoM) (0.3% exp). The YoY rate came in at 2.8% (vs 2.9% est).
- In the UK interest rates have been left on hold as the Bank of England said it was keeping watch on a “highly unpredictable” world amid rising energy prices.
- The UK’s annual inflation rate (headline) cooled from 3.5% in April to 3.4% in May, aligned with a consensus of 3.4%. Core inflation dropped from 3.8% to 3.5% in May, below a consensus of 3.6%.
- In the US, all the three major indices are trading positive this month (MTD) - with NASDAQ having increased the most, by 4.5%.
- US10YR was slightly lower as compared to the previous month 4.3% vs 4.4% (May 2025).
- US Dollar Index declined compared to last month: 99.3 in May 2025 vs to 97.3 as on today.
- Crude prices were very volatile this month on the back of middle east tension. On the day of the Israeli strike crude rose more than 12% intraday, vis-à-vis May 2025 crude prices rose \$67/bbl vs \$63.9/bbl (May 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)
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%
July '24	7.48%

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Key triggers for July series:

- Q1FY26 Results and Quarterly Updates
- Geopolitical Developments
- Tariff Updates
- FII Flows

Fund Positioning & Strategy

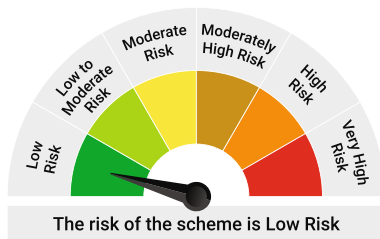
- The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in schemes of HSBC Mutual Fund, G-Secs/ TBILLs and CP/CD's (including for Margin Placements). The debt portion is actively managed 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 June 27, 2025.

Disclaimer & Product Labelling

June 27, 2025

HSBC Arbitrage Fund

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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 May 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 June 27, 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 May 31, 2025.

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