



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

July 26, 2024



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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 7.48% annualized. Allocation towards hedged equities is at 75.63 with tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of July expiry saw rollover basis to start at 71/72 bps with very low participation followed by a decline to 69/70 bps levels. Beginning of expiry week we saw participation by short rollers at 67-68 bps, although with low volumes. Last two days of expiry week we saw rolls trading lower in a range of 60-62 bps; with certain stocks falling to 38-43 bps levels. For the second consecutive month, we saw rolls levels remained under pressure and even on expiry day roll levels did not inch up.
- Nifty increased 1.6% in July'24 (MTD), in June'24 the index had gained 6.6%. Markets remained positive for the second consecutive month as the benchmark index NIFTY50 made an all-time high, although it has started to correct since mid-month.
- On the day of the budget, markets were volatile, until noon markets were quiet – however, early afternoon markets saw a sharp drawdown only to recover most of the losses by the end of the session.
- June CPI inflation at 5.1% (Est: 4.8%) printed higher than the May headline of 4.8%, largely owing to the sharp increase in perishable food prices toward the latter half of June amid heat-wave conditions and a weak start to the monsoon season.
- Now that the budget is out of the way, markets seem poised for a correction on the back of profit booking.
- FIIs have been net buyers this month, purchasing equities to the tune of \$4 bn (MTD) as compared to \$3.1 bn of buying previous month. Year to date, FIIs have bought equities close to \$4.4 bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,22,603 crs Vs Rs 2,09,428 crs). This month average roll basis was slightly better than the previous expiry, ~72 bps Vs 68 bps previous month.

Inception Date

30th June 2014

Benchmark

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 &

Hitesh Gondhia

For Debt Portfolio

Mahesh Chhabria

Kapil Punjabi

*As per clause 1.9 of the SEBI Master Circular for Mutual Funds no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/74 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. Furthermore, the same is effective from 01 December 2021.

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July 26, 2024

Global Markets

- Global equity markets have been bearish this month as US stocks have declined while markets in the EU have been flattish with a negative undertone (MTD).
- In the US, CPI for the month of June'24 dropped at 3% Vs 3.3% in May'24, estimation was of 3.1%. A rate cut in September by the US Federal Reserve is now seen as more certain.
- Following the release of the inflation data, the US dollar came under heavy selling pressure.
- UK Inflation held steady at 2% for June'24, the headline inflation came in above analyst expectations at 1.9%, thereby, prompting traders to reduce bets that the Central Bank will lower interest rates next month.
- In the US, most of the major indices are trading negative this month - with NASDAQ having decreased the most, by 3.1%.
- US10YR decreased from 4.4% (Jun'24) to 4.25%. US Dollar Index decreased from 105.9 in June'24 to 104.2.
- Crude decreased from \$86.4/bbl. to \$82.6/bbl. Crude prices retraced owing to speculation about potential US interest rate cuts as early as September.

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 '24	7.48%
June '24	8.93%
May'24	9.26%
Apr '24	7.55%
Mar '24	10.19%
Feb '24	8.87%
Jan'24	8.65%
Dec'23	11.26%
Nov'23	8.28%
Oct'23	7.28%
Sept '23	9.11%
Aug '23	9.24%

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July 26, 2024

Key Triggers for August Series

- Remaining Q1FY25 results
- US FOMC policy
- RBI policy outcome
- Regulation on F&O trading
- FII flows and Global macros

Fund Positioning & Strategy

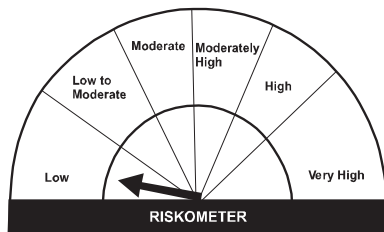
- Currently, allocation towards hedged equities or cash futures arbitrage is at 75.63% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs 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 as on July 26, 2024.

Disclaimer & Product Labelling

July 26, 2024

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Investors understand that their principal will be from Low risk

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

This product is suitable for investors who are seeking*

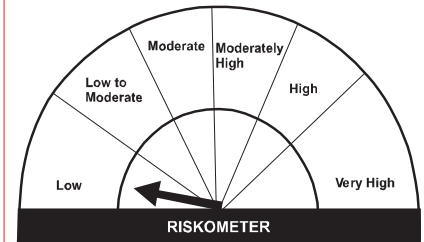
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on June 30, 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 the particular Scheme.

Benchmark: Nifty 50 Arbitrage Index



[^]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 June 30, 2024

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

Source: HSBC Mutual Fund and Bloomberg

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