

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

May 02, 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 7.55% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of April expiry saw rollover basis at 77-79 bps with low participation as roll levels lowered to 74-75 bps there wasn't any meaningful increase in volumes, once roll levels touched 72-74 bps we saw aggressive participation by short rollers and was maintained progressively with high volumes, finally on expiry day we saw rollovers moving in a wide range, between 68-75 bps with certain stocks hitting 55 bps at the end of expiry.
- NSE Nifty 50 increased 1.1% in Apr'24 (As on April 26), in Mar'24 the index had gained 1.6%.
- FIIs have been net sellers this month, selling equities to the tune of \$1.5bn as compared to \$4bn of buying seen previous month. In the last 3 months, FIIs have bought equities close to \$3bn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 1,91,257 Crs Vs Rs 1,75,393 Crs). April's average roll basis was lower than the previous expiry, 72 bps Vs 78 bps previous month.
- Markets were volatile in April with the benchmark index NIFTY50 witnessing a 3.3% drawdown from the highs, it eventually recovered.
- CPI inflation for Mar'24 came in at 4.85% (Vs prior 5.09% and est. 4.9%) aided by moderate rise in food prices and a mid-month cut in fuel prices. April month CPI is currently tracking at 4.8-4.9%. Even though CPI is marginally lower (vs RBI's target), this is unlikely to cause any change in their course of Monetary Policy. Nor would RBI precede FED in any policy rate cut action.

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

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Global Markets

- Global equity markets have been on a downtrend this month, especially due to the geopolitical tensions in the Middle East flaring up. In the US CPI for the month of Mar'24 came hotter than expected (both headline, 3.5% and core, 3.8%) giving fresh worries that the last mile of inflation is proving to be very sticky and may in fact be re-accelerating.
- With the latest inflation print, market participants anticipate that the Fed will delay cutting interest rates until Sep 2024. Inflation in the UK came in at 3.2% for Mar'24 Vs 3.4% in Feb'24, inflation declined by less than expected (est. 3.1%), adding to signs of a delayed interest rate cut. ECB president, on the other hand, indicated that EU interest rate cut could happen soon – barring major surprises. China reported their Q1 GDP at 5.3% Vs est. of 4.8%
- All the three major US indices are trading negative this month - with NASDAQ having decreased the most, by 4.7%. US10YR increased from 4.2% (Mar'24) to 4.7%. US Dollar Index increased from 104.5 in Mar'24 to 105.6. Crude increased from \$87.5/bbl to \$89.3/bbl. Crude had risen past \$92/bbl in response to the soaring tensions in the Middle East.

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)
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%
July '23	7.93%
Jun '23	8.57%
May '23	7.76%

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Key Triggers For May series

- US Fed Meet
- Q4FY24 Results
- Geopolitical Situations
- Global Markets
- Elections

Fund Positioning & Strategy

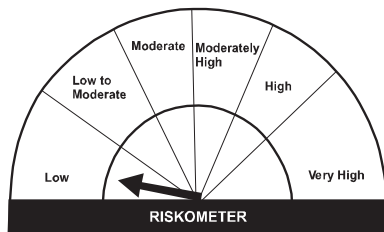
- Currently, allocation towards hedged equities or cash futures arbitrage is at 77.09% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs 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 March 31, 2024.

Disclaimer & Product Labelling

May 02, 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*

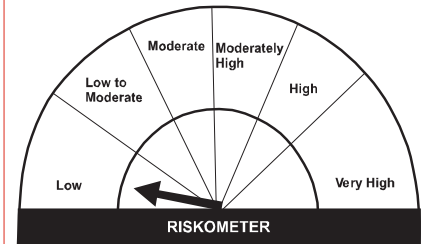
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

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

Riskometer is as on March 31, 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 March 31, 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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